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ROYAL COMMISSION
ON
TRANSPORTATION

HEARINGS

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I N D E X

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HARRIES, HU.

Cross-examination

By Mr. Hume

By Mr. McDonald

By Mr. Sinclair

By Mr. Brazier

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NO EXHIBITS IN THIS VOLUME

EXHIBITS LISTED



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ROYAL COMMISSION ON TRANSPORTATION

Proceedings of hearings held
in the Court Room, Board of
Transport Commissioners
Offices, Ottawa, Ontario, on
the 12th day of October, 1960.

COMMISSION

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Ottawa, Ontario,
Wednesday,
October 12, 1960.

--- On commencing at 10:00 a.m.

THE CHAIRMAN: Order, please.

Mr. Hume.

MR. HUME: Thank you, Mr. Chairman.

HU HARRIES, recalled

CROSS-EXAMINATION BY MR. HUME:

Q. Mr. Harries, there are one or two questions that arise out of your submission entitled "Transportation and the Economy of Alberta" to which I would like to direct your attention.

A. Yes, sir.

Q. And if you would be good enough to turn to page 12, I just want to be sure I understand what you mean in the first paragraph when you say:

"It has not been sufficiently stressed, that these competitive media have only been made competitive by reason of very substantial increases in the railway rates that applied in previous years".

Do I understand that to be that the factors have contributed to the spread of the trucking industry in Alberta are purely a matter of cost; that you do not regard the flexibility and the service factors and some of those things as being also important to make the



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3 competitive media a factor in Alberta transportation?

4 A. Oh, no, sir. I would not wish to leave
5 that impression. What I was referring to was the
6 consumer durables which, as I had stated in a previous
7 paragraph, sir, were virtually all manufactured outside
8 of western Canada. I am suggesting, sir, that more
9 especially these major consumer durables, which are long
10 haul pretty well, that now many of them move by highway
11 transport, and they move by highway transport primarily
12 because the highway transport has been made competitive
13 by reason of the very substantial increases in railway
14 rates applied in recent years.

15 Q. So that this paragraph is referring to the
16 growth of the trans-continental trucker which is a
17 phenomenon of the last 12 or 15 years?

18 A. That is correct, sir.

19 Q. Then, Mr. Harries, on the same point, at
20 page 25, you are referring to the past 10 years in
21 Alberta. At the top of the page, you say this:

22 "Within the past 10 years in Alberta,
23 there has been a significant change
24 in the type of commodity that can pro-
25 fitably be moved by truck. This
26 change has come about not through
27 any change in the transportation
28 characteristic of the commodity
29 but solely through a change in the
30 relative cost of shipping by rail



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3 as against shipment by truck".

4 Do I correctly interpret that sentence that
5 your word "cost" is not merely dollars paid, but includes
6 all factors of cost, including flexibility, service, and
7 so on? Is that correct?

8 A. Yes, sir. What I had in mind specifically
9 was the movement of gravel, for example, in and around
10 the Edmonton area. There are many, many thousands of tons
11 of sand and gravel that move by truck for distances up
12 to 20 miles, and that just was not possible 10 years ago
13 because of not such good highways, not such good
14 equipment and lower rates.

15 Q. Dealing with gravel, on page 31 and 32 you
16 specifically refer to the gravel situation. At the bottom
17 of page 31 you point out that in Alberta there is no
18 control by a regulatory tribunal, and I understand
19 that to be so in the matter of rates and in the matter
20 of entry into the field?

21 A. That is correct, sir.

22 Q. Perhaps you would explain why it is that
23 if in Alberta this system is satisfactory with respect
24 to manufactured goods why Alberta feels it necessary to
25 put regulations with respect to gravel? What is the
26 matter with competition on gravel in fixing the rate?

27 A. I do not think there is anything the
28 matter, sir, and I wish to make it perfectly clear that
29 in presenting this brief I am not speaking on government
30 policy, as such. I am not a policy witness, and I want



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3 to make that clear before I answer this question. I can
4 tell you why I think the gravel rates are controlled.

5 Q. Yes, if you would it would be of
6 assistance, because, as I understand it, in Alberta you
7 do not control rates in any way, similarly to the
8 province of Ontario?

9 A. That is correct, sir.

10 Q. And for some reason or other you do control
11 rates on gravel. I just wondered if there was any
12 explanation to assist the Commission?

13 A. I think the rates on gravel in Alberta are
14 controlled in order to distribute the very large amount
15 of truck work in connection with gravel among the many
16 thousands of one-truck owners who are located throughout
17 Alberta.

18 In other words, the system that the government
19 has employed in connection with highway contract gravel
20 hauls is designed to give the local and sometimes part-
21 time trucker an opportunity to employ his truck on some
22 of these major highway contracts. So, what the
23 government does is to make it part of a highway contractor's
24 commitment when he makes a bid and gets it to give, first
25 of all, priority to the local truckers within a certain
26 area. And then, because these local truckers would not
27 have nearly the same competitive strength as the highway
28 contractor the government has established what may be
29 called "fair trade" regulations with respect to the
30 carriage of gravel, and the government, as I understand it,



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3 works on the theory that while you are paying for the
4 trucks you are also paying a substantial part of your
5 total gravel haul for the labour. And what it really is
6 is a fair labour standard.

7 THE CHAIRMAN: It is designed to prevent
8 monopoly in that field?

9 THE WITNESS: That is correct, and designed to
10 redress the competitive balance or imbalance that would
11 exist between the little trucker and great big contractor
12 -- the little trucker, who may be a farmer or a farmer's
13 son: he has got a five-ton truck; he wants to work for
14 three months during the summer hauling gravel, so he gets
15 his chance.

16 Now, that is my understanding, sir, and I once
17 again wish to make it absolutely clear that I am not
18 stating government policies; I am stating what I
19 understand to be the reasoning for this particular
20 situation.

21 MR. FRAWLEY: Appropos of that, I would just
22 like to have the record made clear that Dr. Harries is
23 here as an independent consultant in precisely the same
24 position as the four gentlemen from the United States
25 who will follow him on the witness stand, who will also
26 be here as independent consultants. Dr. Harries practices
27 his profession as an economic consultant in Edmonton, and
28 he happens to be Dean of the Faculty of Commerce at the
29 University of Alberta. I am glad Dr. Harries made it
30 plain, and I would like to emphasize that he is an



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3 independent consultant, because I think his views might
4 be of assistance to the Commission.

5 MR. HUME: I would suggest, Mr. Frawley, he is
6 quite an expert. The last two occasions prior to this
7 when I met Dr. Harries was in connection with the Royal
8 Commission on Transportation.

9 MR. SINCLAIR: And, of course, Mr. Chairman, I
10 think this is extremely important, that Dr. Harries also
11 speaks as an Albertan and has the advantage of the
12 practical background of having been fortunate enough to
13 be brought up on the farm, and to have an intimate
14 knowledge of Western Canada and of Alberta in particular,
15 and for these reasons speaks as an Albertan and a Western
16 Canadian.

17 THE CHAIRMAN: We all recognize him as such.

18 MR. FRAWLEY: And his father was at one time
19 a superintendant of the Canadian Pacific Railway farm at
20 Strathmore.

21 MR. SINCLAIR: And, like all grain farms run
22 by Canadian Pacific for the assistance of the farmers,
23 even Dr. Harries' father could not make it make money.

24 MR. FRAWLEY: Where are they now?

25 MR. SINCLAIR: Likely owned by the Alberta
26 government or somebody like that.

27 MR. FRAWLEY: Some irrigation district.

28 MR. HUME: Q. Could we go back to the gravel
29 operator. There is something I still do not understand.
30 The Chairman asked you whether this was designed to



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3 prevent monopoly. As I understand it, in Alberta anybody
4 with sufficient revenue to purchase a truck can go into
5 the business, that is if he has a truck that can move
6 gravel. I understand that.

7 A. Yes, sir, subject to the kinds of
8 limitations that are written into these contracts with
9 respect to gravel.

10 Q. The point I do not understand -- and I
11 realize Mr. Frawley, your counsel, has indicated your
12 position -- perhaps you can assist the Commission and me:
13 Would the small local fellow who wanted to haul gravel
14 two or three months be able to do it somewhat cheaper
15 than the large contractor who possibly has a union
16 contract and terminal expenses and heavy overheads? The
17 small one would be able to haul quite a bit more cheaply.
18 Does the government contract keep it up or down?

19 A. I think it keeps it up. Let me tell you
20 why I am saying that, just so there is no misunderstanding.
21 I have had occasion to review gravel contracts, when I
22 was a political appointtee of the City of Edmonton.
23 Usually, we found that the rate, as established by the
24 independant truckers which was, if not the same as, at
25 least very closely associated with the rates used by the
26 inter-provincial government contract, that these loads
27 were invariably above the rates that would be submitted
28 for a contract for City of Edmonton gravel haul using
29 either other hired equipment or company-owned equipment.
30 So I think it is fair to say that the rates under the



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3 system as it is employed are rates which are higher
4 than they might otherwise be, but I think this is a
5 concession; a policy concession that the government makes
6 to fulfill their desire to have local people participate.

7 THE CHAIRMAN: And a democratic process.

8 THE WITNESS: Yes.

9 MR. HUME: Q. And if a local trucker came to
10 your road contractor and said, "I am quite prepared,
11 because I am only doing this two or three months a year,
12 and my truck is an old one; I am quite prepared to haul
13 considerably under the rate", he would not be permitted
14 to do so?

15 A. No, sir, I think he would not be permitted
16 to do so.

17 Q. In effect, in Alberta with respect to
18 gravel competition does not set the rates; some
19 regulatory body does?

20 A. That is my understanding, yes, sir.

21 Q. You go on in that paragraph comparing
22 Alberta to Saskatchewan with respect to regulation, and
23 I suppose you pick Saskatchewan because that is a
24 province where the rates are regulated; the highway
25 carrier rates are regulated?

26 A. Yes, sir.

27 Q. I do not understand your last sentence.
28 May I read it to you and ask you to please amplify it?

29 "It is submitted that even in
30 jurisdictions where the most



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3 thorough-going rate control over
4 highway carriers has been practised
5 the result has not been to fashion
6 a pattern of transportation control that
7 makes economic sense, as witness
8 the experience in the United States."

9 What, sir, are you saying in that sentence?

10 A. Well, sir, I made reference and elaborated
11 on this yesterday in my evidence in chief, and what I was
12 suggesting, sir, was that the application of control
13 measures to trucking usually starts out with control
14 of the public service vehicles, the common carriers; and,
15 then, of course, the common carrier trucks. And the
16 railways are in about the same position, and they are
17 fighting the contract carriers and the private carriers.
18 So, logically, one extends control then to the next
19 group, which is contract carriers, and you ultimately
20 are driven, I suggest, if you adopt this control
21 procedure, to the point where, to make economic sense,
22 to have get in almost the position that Mr.
23 Fairweather got in connection with his proposals, which
24 he so ably elaborated before the second Turgeon
25 Commission, and before the first one, as a matter of
26 fact, too. In other words, I am suggesting, sir, with
27 the most thorough-going rate control over highway
28 carriers you still do not get realistic and efficient
29 economic utilization of highway transport unless you
30 go right the whole way and even regulate the private



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3 carriers.

4 I am suggesting, sir, that the logic of that kind
5 of a procedure will ultimately take you directly to
6 socialization of transport.

7 Q. It is your view that the natural evolution
8 of regulation of any media of carriage is that you
9 ultimately get to the point when you regulate the
10 private carrier. To turn it to terms of persons, rather
11 than freight, as you regulate the passenger rates on the
12 railway you ultimately get to the point where you have to
13 do something about the individual using his private
14 automobile for inter-city travel. Is this the point you
15 are making?

16 A. I would confine it, sir, to movement on
17 goods rather than persons, but basically I think that is
18 the logic of the position, sir.

19 Q. And what is the experience in the United
20 States? I am not aware of the consequence. You say,
21 "...as witness . the experience of the United States".
22 If you elaborated this yesterday, you can tell me so and
23 we can pass on, because I have not had a chance to read
24 the transcript.

25 A. Very briefly, the experience is, as I read
26 it, that the regulation of the common carrier trucks with
27 a minimum regulation of contract carriers has not proven
28 the solution to their problem of economic transportation,
29 and so we have now suggestions that there be more rigid
30 regulation of the contract carriers. I am suggesting to



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3 you, sir, that even if those were put into effect we
4 still would be faced with the problem of the private
5 carrier, and it would be necessary, to get economic
6 sense out of the whole picture, to regulate them.

7 Q. What is the problem, sir, that is to be
8 solved by this regulation? Is it that the rates are to
9 be regulated so that they are kept up, or so the
10 regulation is to be the minimum and competition is to
11 have full play as it does in Alberta except in gravel?

12 A. As I understand the objectives of the
13 transport policy in the United States, they seek the
14 most efficient utilization of the transport system, that
15 they choose as a method of doing that the use of controls
16 to limit competition. I am suggesting, sir, that policy
17 leads you only to a more complete control as the years
18 go by, and ultimately to complete control.

19 Q. Well, is it the experience to which you
20 are pointing in this sentence with some criticism --
21 is the word "experience" interpreted as being the rates
22 are too high, or there is an uneconomic use of
23 transportation facilities?

24 A. I think, sir, that there is an uneconomic
25 use of transportation facilities, and that there are
26 unquestionably instances where the rates, as regulated,
27 are too high because you get all these subterfuges
28 to get them, such as the use of contract carriers and
29 the use of private carriers.

30 COMMISSIONER MANN: Mr. Hume, may I just



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3 interrupt for a moment please?

4 MR. HUME: Yes, certainly.

5 COMMISSIONER MANN: Dr. Harries, in pointing
6 to the United States experience, you have confined
7 yourself, I noticed in your discussion with Mr. Hume,
8 strictly to rate control.. Now, as you know there are
9 other aspects of economic control of the trucking
10 industry. Do you think, for instance, that absence of
11 rate control, but control over routes and entries would
12 also lead inevitably to what you call the socialization
13 of transport?
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2 THE WITNESS: I think so because quite
3 frankly it has never made very much economic sense to
4 me to have a limit to competition without at the same
5 time establishing rate control. If you limit the
6 competition then surely you are giving the operator an
7 opportunity to establish his price independent of com-
8 petition. Once you do that then it seems to me you are
9 almost morally obligated to put in some form of price
10 control. For instance, if you put two carriers on a
11 route you can anticipate that there will be a certain
12 amount of competition between those two carriers. How-
13 ever, it is equally valid, I think, to anticipate a
14 certain amount of collusion between them with respect
15 to the establishment of rates. I do not use the word
16 "collusion" in any nasty sense.

17 THE CHAIRMAN: Nothing to do with the Combines
18 Act?

19 THE WITNESS: No, but they begin to appreciate
20 one another's problem. That is the way the trade people
21 talk about it, at least that is our experience in the
22 trade association.

23 COMMISSIONER MANN: You have what you might
24 call captive traffic in a case like that?

25 THE WITNESS: Yes, sir.

26 MR. HUME: Q. Just arising out of what
27 Commissioner Mann asked you, in Ontario there is control
28 of routes and there never has been rates control, and the
29 trucking industry in Ontario seems to be developing
30 and functioning very well. Do you consider from your



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2 point of view that it is an uneconomic development
3 with respect to the use of transportation media in
4 Ontario?

5 A. I am always afraid if someone gets an
6 exclusive or a non-exclusive on a particular area that
7 there is a danger of them using that exclusive right
8 to increase prices.

9 Q. Yes, and taking the Ontario situation
10 just for a minute: the situation in Ontario is that
11 there rarely is in exclusive areas some times three or
12 four trucking concerns competing for the same freight
13 movement over the same route?

14 A. One would anticipate in those circum-
15 stances where there are enough operators on the same
16 route to create competition and to avoid their getting
17 too sympathetic with one another, then I think you have
18 no need of price or rate control.

19 Q. Then this sentence to which I have reference
20 that it does not make sense, economic sense, in the
21 United States -- I am clear that you have reference
22 there to what you call uneconomical use of transporta-
23 tion media in the United States?

24 A. Yes.

25 Q. And would it be your suggestion that it
26 would make better sense if they just scrapped all con-
27 trols on transportation and just let it run?

28 A. Oh, well, I do not think ---

29 Q. I am not talking about the width of the
30 vehicles and speed limits and those kind of controls.



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2 The controls I am speaking of are price and rate and
3 public convenience and necessity, and that sort of
4 thing.

5 A. I think I have trouble trying to find
6 out what I would suggest for Alberta and Canada and
7 if you will pardon me I do not want to extend down to
8 the United States and say what I think they ought to do.

9 Q. You have indicated some unhappiness with
10 the American experience and I just wanted to make sure.

11 A. I think, without prescribing policy for
12 the United States, that it is not unreasonable for me
13 to make the suggestion that, as I read the evidence in
14 connection with their attempts to control truck trans-
15 portation, it would be a wrong thing to do here in
16 Canada. I do not think I need take the next step and
17 say what they should do in the United States. I think
18 we can profit from the experience we have had in the
19 United States, but this, I hope, does not impose on
20 me an obligation to tell them what they should do
21 instead of. They have many people much smarter than
22 I who can tell them that.

23 Q. And what do you suggest should be done
24 in Canada? You are suggesting there that there be
25 no controls of any kind anywhere in Canada, that they
26 just operate -- are you not going to have travel
27 controls in Alberta, just have it wide open? Is
28 that what you are recommending?

29 A. I think there should be no rate control
30 for highway carriers. There should be no tickets of



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2 convenience and necessity and there should be no
3 route prescriptions, yes, sir. As to your speed
4 and weight requirements, all those things are necessary
5 but not the three types of things which we have dis-
6 cussed.

7 Q. Would you permit one highway carrier
8 with a lot of economic strength to cut his price
9 in a predatory fashion and wipe out all competition in
10 an area?

11 A. Yes, sir.

12 Q. You would?

13 A. Yes.

14 Q. What about Section 412 of our Criminal
15 Code that has now been transferred to the Combines Act?
16 That is the one that prohibits a manufacturer from
17 so cutting his price in one area as to wipe out a
18 competitor? Would you completely wipe out that
19 phrase?

20 A. I believe that in connection with highway
21 transport the efficient man ought to get the business
22 and if that involves people going broke then I think
23 that unfortunately has to happen.

24 Q. Suppose a wealthy man is not the efficient
25 man, but he could withstand the losses? He may not
26 be efficient but he has a lot of money. Would you
27 let him wipe out his competition so he would be alone
28 in the field?

29 A. If he wants to make a contribution to
30 the public welfare by operating at less than cost then



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2 I would say yes, let him go ahead.

3 Q. And after eliminating this competition
4 what then is the effect on the public?

5 A. Well, that is one thing which I think
6 experience teaches us in connection with the trucking
7 business, and that is that as long as this man who
8 drove out the competition keeps his rates low then he
9 is going to get the business. However, as soon as he
10 starts to get his rates up above what people consider
11 reasonable there will be other truckers move in.

12 Q. You think other truckers would make the
13 necessary investment and organize the trucking industry
14 knowing if they did so theirs might meet the same fate
15 unless they had as much money?

16 A. Yes, I do. That is one of the amazing
17 things in connection with the trucking industry, the
18 number of times people can see something in a situation
19 that a logical analysis does not agree with. I have
20 seen it in Alberta so many times where there is always
21 somebody who can get the down payment for a couple of
22 trucks and start hauling even though on the face of it
23 it just does not look inviting at all. However, they
24 do it and this is one of the economic facts of life and
25 I accept it rather than figure out why they should not
26 do it.

27 Q. May I take you one step further without
28 imputing bad faith on the Canadian railroads, but
29 Canadian railroads have now opened large trucking lines.
30 Do you consider there is any danger to competition by



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2 reason of the fact that the economic strength of the
3 railroads would permit them if they wished, and I am
4 quite sure they could in certain areas of Canada,
5 to wipe out their competitors if there is no rate
6 regulation or control?

7 A. I do not consider that to be a problem.
8 As I mentioned yesterday, ten years ago I certainly
9 thought of it as a problem. I was most concerned
10 when Canadian Pacific went in and bought Dench and
11 started to move in on the private carriers in Alberta.
12 However, there is an interesting thing, because at
13 the time Dench was purchased by Canadian Pacific Canadian
14 Freightways were a little company operating out of a
15 garage in Calgary and you could have bought them for
16 \$100,000. It was not a year after Canadian Pacific
17 acquired Dench that Canadian Freightways were one of
18 the major carriers in Alberta. They expanded
19 tremendously. People stayed away from Dench in
20 droves, as it were, and so you have the other companies
21 developing and on the basis that people just would not
22 go for what you suggested, or the kind of control that
23 the railways might exert. Today there are perhaps
24 three other major companies because Canadian Freightways
25 in turn got, I would not say fat, but they got big and
26 almost in the same category as Dench. Then another
27 company starts, and you know the trucking industry
28 in Alberta better than I do, but this is the picture.
29 They seem to develop and grow with the competitive
30 situation. I think we can get better transportation



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2 and cheaper transportation by just encouraging that com-
3 petitive situation.

4 Q. It is a fact, however, that Canadian
5 Pacific when they purchased Dench and the other lines
6 in western Canada did not engage in the sort of thing
7 I was talking about. They operated those lines so
8 as far as the public was concerned there was no apparent
9 change. I am talking about an economic possibility of
10 reestablishing a monopoly position by your suggestion
11 under which some change of management of the Canadian
12 railways or some change of thinking five or ten years
13 from now might make this possible. You do not think
14 that is a serious problem, and I am glad to have your
15 views on it.

16 Would you be good enough to turn finally to
17 page 39, in the middle of the first paragraph, about
18 two-thirds of the way down? There you say:

19 "What is proposed is that the railways
20 be free to operate their business in the
21 same way as the other major businesses
22 of Canada operate but subject to one
23 requirement as to maximum rates."

24 Now, it was my understanding that that is the situa-
25 tion that exists today, railways can put in competitive
26 rates subject to the one requirement that they must
27 be compensatory. I do not think there has ever been
28 a competitive rate successfully challenged on that
29 basis and they are free to put in a competitive rate
30 overnight and they can meet competition where they



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2 have it but they are on the maximum rate. What is the
3 difference between what you propose and what they have
4 today?

5 A. Well, as I said earlier in the brief
6 it would be wrong to suppose that in fact what we are
7 suggesting -- what you have said I basically agree
8 with but we are proposing basically a change in the
9 manner in which the maximum rates are prescribed. We
10 are also proposing that there be less latent control
11 by the Board of Transport Commissioners of the
12 railway freight rates structure. In other words,
13 such things as the equalization sections and things
14 would come out.

15 Q. I do not want to sit down without
16 mentioning to you that over the years I have had the
17 privilege of chatting with you on these matters
18 because the Province of Alberta has had a great
19 interest in the growth of the trucking industry in
20 your area. Your experience before previous
21 royal commissions would indicate that would be the
22 fact. Your province has been very aggressive, your
23 Minister of Highways Mr. Taylor has been very aggres-
24 sive, for instance, in entering into reciprocity agree-
25 ments with a great many of the United States. Do
26 I correctly interpret the attitude of your province
27 that without water transportation you regard highway
28 transportation as sort of your alternative or com-
29 petitive media? Would you say that is a fair state-
30 ment?



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2 A. I think that is a policy question and
3 I do not want to evade it but I do not think I should
4 answer that. Perhaps Mr. Frawley could help you.

5 Q. I do not mean to put it as a policy
6 question, I mean to look back over the last ten or
7 fifteen years and see if you agree with me that this
8 has been the fact, that your province has been most
9 aggressive in the development of highway traffic as
10 an alternative means of transportation?

11 A. Yes, there is no question about that.
12 I have seen that particular thing stated by the Honourable
13 Mr. Taylor.

14 Q. My last question to you is, have
15 you had an opportunity to consider the draft
16 regulatory legislation suggested by the Canadian
17 Trucking Associations to this Commission with respect
18 to the international and interprovincial trucking?

19 A. No, sir, I have only read the newspaper
20 reports on it.

21 MR. HUME: Thank you very much.

22
23 CROSS-EXAMINATION BY MR. McDONALD:

24 Q. Mr. Harries, in dealing with your first
25 submission on long and short haul discriminations, could
26 you give me the definition of discrimination as you
27 use it here?

28 A. Well, discrimination results as a
29 consequence of a higher charge for a shorter movement
30 than for a longer movement when the shorter movement



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2 is contained within the longer.

3 Q. That is the sense in which you use it
4 here?

5 A. Yes, sir.

6 Q. Then, at page 7, table 1, as revised,
7 you are comparing agreed charge of freight rates from
8 eastern Canada to Vancouver and rates to Calgary and
9 Edmonton on the same commodities?

10 A. Yes, sir.

11 Q. Is it not true you are comparing agreed
12 charges with class rates and commodity rates in some
13 cases?

14 A. In some instances, sir. In other
15 instances we are comparing agreed charge to Vancouver
16 with an agreed charge to Vancouver plus backhaul, yes,
17 sir.

18 COMMISSIONER MANN: Have you always taken
19 the lowest applicable rate to the intermediate point
20 in this table?

21 THE WITNESS: As far as I am aware, yes,
22 sir. That is the intention. If there are lower
23 rates to intermediate points then the rates as noted
24 should be changed and those rates put in.

25 MR. FRAWLEY: Certainly the intention in
26 these exhibits was to do that.

27 COMMISSIONER GOBEIL: In Table 1, each
28 commodity -- would you be comparing agreed charge with
29 agreed charge?

30 THE WITNESS: Window glass is one of them.



1
2 MR. FRAWLEY: The glass is carried to the
3 intermediate stations on agreed charge 500, and
4 the same glass is carried to the west coast on
5 agreed charge 118.

6 THE CHAIRMAN: What about cheese?

7 MR. FRAWLEY: Perhaps I should let Mr. Harries
8 answer but it is on the page of the tariff reference
9 of Exhibit 81-A.

10 THE WITNESS: The \$3 rate to Vancouver is
11 an agreed charge; the \$3.32 rate is reference CF-5J.

12
13 THE CHAIRMAN: The difference is low, then?

14 THE WITNESS: That is correct, sir.

15 MR. McDONALD: Q. Then in comparing agreed
16 charges with class rates and commodity rates you have
17 not given any weight to the fact that in the agreed
18 charges there are certain minimum rates prescribed?

19 A. Yes, I think generally you will see from
20 looking at Exhibit 81-A that we have tried to select
21 the same minimum weight where it is possible to do that.

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Q. Taking asbestos, the first one?

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A. Yes, sir.

4

Q. The minimum weight is 60,000 pounds to
Vancouver; the minimum weight, Calgary and Edmonton,
is 40,000 pounds?

7

A. Yes, sir.

8

Q. And another example, No. 2, the battery
electric and other miscellaneous commodities, the
minimum weight to Vancouver is 45,000 pounds and the
minimum weight to Calgary is 24,000 pounds?

12

A. I think we have used -- yes, you are
correct. We have used the 411 rate which is 24,000
pounds.

15

Q. I just took those out as examples.

16

A. Yes.

17

Q. The point I am trying to make is that
there are a number of things which go into the agreed
charges: the shipper guarantees to ship a certain per-
centage of his commodity by rail?

21

A. Yes, sir.

22

Q. Which does not apply when you get into
commodity rates and class rates; there is no guarantee?

24

A. That is correct.

25

THE CHAIRMAN: You have tried to compare
like with like?

27

THE WITNESS: Yes, sir, to the extent that it
is possible.

29

MR. McDONALD: Q. Then, on the transcon-
tinental competitive rates you will agree that the

30



1
2 reason for establishing those rates was to meet com-
3 petition either actual or potential?

4 A. Yes, markets and carrier competition,
5 either actual or potential.

6 Q. That is, foreign market competition?

7 A. Yes, usually.

8 Q. And therefore, if the rates were not
9 established, these railway rates, the goods would
10 still move into Vancouver either via the Panama Canal
11 or come from some foreign country?

12 A. Oh, yes, I think that is correct.

13 Q. Would you agree with me that the interme-
14 diate points are no worse off merely by the publishing
15 of those railway rates?

16 A. Well, sir, initially that may be the
17 case. You have to look, though, at the long term
18 effects of this long and short haul discrimination, I
19 think, more than just the immediate effect.

20 Q. What do you mean?

21 A. Immediately one could argue if this
22 stuff is coming into Vancouver anyway, it certainly
23 doesn't hurt the intermediate point to have the
24 Canadian railways hauling it.

25 Q. That was the point?

26 A. Yes, sir.

27 Q. That is all I have on your first sub-
28 mission, Dr. Harries. Would you turn to Transportation
29 and Economy of Alberta: I would like to deal with your
30 approach to the new railway price policy?



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2

A. Yes, sir.

3

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Q. Following up your proposal, if the non-competitive traffic moves at longer or shorter distances than the lowest competitive rate, wouldn't it be difficult to establish a rate?

7

A. No, sir, I don't think it would be difficult.

9

10

11

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Q. I am taking, for instance, supposing you have some non-competitive traffic which is moving, say, 2000 miles, and you find a competitive rate on the same or similar traffic moving 200 miles: what criteria would you use in getting your rate base?

14

15

16

A. I don't think with that difference you can use the 200-mile haul as a criteria for the 2000 miles.

17

18

Q. You would have to get something similar in hauls?

19

20

21

22

A. Oh, yes, within twenty-five per cent or something like that. You could not compare a 200-mile with a 2000-mile haul because you have not got enough to work with.

23

24

Q. I can see difficulties because on your 2000-mile haul your rate of taper comes in there?

25

A. Oh, yes.

26

27

Q. That was one of the difficulties I could not reconcile in trying to understand your approach.

28

29

30

A. I think that is a theoretical difficulty because there is no question, as you look through the thousands of rates that there are, that it would be a



1
2 most exceptional circumstance where you were trying to
3 extrapolate from 200 to 2000.

4 Q. Another point is, if a special low
5 competitive rate were published for a limited time it
6 would affect all the rates on the same or similar
7 products throughout Canada, wouldn't it?

8 A. Yes, sir.

9 Q. The example that Dr. Gobeil gave you
10 yesterday. And, would that not put the railways to
11 a great deal of trouble in publishing new tariffs?

12 A. Yes, sir, it would. I have been giving
13 some thought to this question which was raised yesterday,
14 and I am not sure that there would not be an oppor-
15 tunity in connection with developmental rates to pub-
16 lish certain short-term developmental rates separately
17 -- that is, without the confines of this particular
18 type of control that we are discussing.

19 Q. Yes?

20 A. I am not sure about that, but I think
21 there may be some grounds for thinking that could be
22 justified and should be justified.

23 COMMISSIONER MANN: How short term is
24 "short term"?

25 THE WITNESS: Well, my immediate thought is
26 that it should be for a year, but I would think this
27 probably would have to depend once again on circum-
28 stances. For example, take an extension of the
29 railroad in northern Manitoba or into the more
30 northern parts of Quebec: there may be very good



1
2 reason for saying this particular piece of road --
3 or, take the Great Slave railroad -- this particular
4 piece of road should have on it a certain level of
5 rates made with the purpose of developing the traffic
6 on this road, and it would be quite proper that that
7 particular developmental road and these developmental
8 rates be outside this kind of control. One would have
9 to be careful they did not have a proliferation of
10 these things, because it would destroy your rate
11 structure.

12 I think there are some possibilities for
13 making some exclusions for these kinds of things because
14 I realize the problem you raise: if you put in a
15 developmental rate for six months you have to change
16 all your tariffs. This is a practical problem which
17 I think is important and I think it may be solved --
18 maybe in that way.

19 COMMISSIONER MANN: You would not extend
20 that exemption you have suggested for developmental
21 rates to the many expiry rates that the railways now
22 carry?

23 THE WITNESS: No. I was thinking of these
24 expiry rates but, as far as I know, sir, the use of
25 expiry rates is simply to make provision for those
26 circumstances where the railway feels that the reason
27 for the competitive rate will have lessened or disappear-
28 ed by a certain date. In other words, they put an
29 expiry rate in for a number of reasons, of course, but
30 one of them is that it may be seasonal competition that



1
2 they have to meet. So, there are a variety of
3 reasons for the expiry rates, and I would not be content
4 at the moment to answer yes to your question because I
5 think there is too much involved. I think one would
6 have to look very carefully at these expiry rates and
7 the reasons for them because many times they are good,
8 legitimate rates. That is how I would categorize them.

9 THE CHAIRMAN: Would your scheme simplify
10 tariffs?

11 THE WITNESS: I think it would, sir, yes.
12 I think it would take a genius to figure out something
13 that would make them more complicated.

14 MR. McDONALD: Q. Anything is possible,
15 but sometimes it takes a little longer.

16 COMMISSIONER PLATT: Before leaving that
17 point, if you will excuse me, Mr. McDonald, outside of
18 forest products can you think of any developmental rate
19 which might conceivably be introduced? Certainly, as
20 far as mining is concerning this is a different kettle
21 of fish as I understand it.

22 THE WITNESS: I can't, sir. It is never
23 clear in my mind whether there are, in fact, develop-
24 mental rates or there are not, because in one case the
25 railways leave me with the impression that they are
26 quite ready to put in developmental rates, and so on,
27 and the next moment they say they are not the arbiters
28 of industrial policy and they won't put any in. I
29 don't know. Maybe a railway witness could help on
30 that. I don't think they are very important, and I



1
2 can see them in connection with the example given
3 yesterday on forest products, but where else they apply
4 I just don't know.

5 MR. McDONALD: Q. I am just trying to
6 analyse your scheme on a few points.

7 A. Yes, sir.

8 Q. I suggest to you that if this scheme of
9 yours were implemented it would delay competitive rate
10 action? What I mean by that is, the rate man when he
11 has to deal with a competitive rate in a hurry -- the
12 shipper can't wait, or his competitor will get the
13 business -- and before making this competitive rate
14 he would have to see what other rates would be
15 affected by this?

16 A. Well, he has to do that today, sir.

17 Q. No, because the other rates in the non-
18 competitive field are not affected by this competitive
19 rate?

20 A. That is correct, the rates in the
21 non-competitive field; but, I would suggest there are
22 very few competitive rates that are made which don't
23 have some impact on other competitive rates or other
24 agreed charges or even standard rates today. The
25 railway, I am sure, when it puts in a competitive rate
26 must look at its rate structure and particular rates
27 before it puts in that competitive rate to see what
28 the impact is going to be in other areas. This seems
29 to me to be obvious, and I am sure it is a fact.

30 Q. Just following that one step further, if



1
2 your scheme were put in, then when they put in these
3 competitive rates, if it is low, automatically all
4 non-competitive rates on the same or similar products
5 would be tied into it?

6 A. If it is a low one, yes, sir.

7 Q. I suggest this to you: why not take the
8 highest competitive rate as the base instead of the
9 lowest?

10 A. I think you can take the highest com-
11 petitive rate if you want to reduce the percentage to
12 5 instead of 40, but the difficulty there is, as I
13 see it, by taking the high one you are really not
14 getting down to the cost situation which is what I
15 think one should be after in rate making.

16 Q. Yes?

17 A. And by taking the low one the railway
18 is exercising its judgment as to what is a reasonable
19 rate because it covers variable cost and makes some
20 contribution to overhead. Under those circumstances
21 one has the railways deciding what their cost structure
22 is and for purposes of maximum rate regulation you
23 add a factor to it. If you take the highest competitive
24 rate you are not really requiring the railways to
25 express an opinion as to what is the cost structure
26 they are faced with. If you take the highest com-
27 petitive rate I don't know how you would determine
28 what is reasonable by way of a highest competitive
29 rate. You can certainly determine what the lowest is
30 and you know it is reasonable because the railways would



1
2 not put it in if they were losing money. At the
3 other end, however, the railways might, for example,
4 have some obscure reason for putting in a very high
5 competitive rate, and they might use that as a
6 cornerstone for the rate structure.

7 Q. And give them a little more latitude?

8 A. Yes, it would give them a little more
9 latitude in one way, and decrease it in another be-
10 cause your percentage would have to be substantially
11 lower. If this scheme of ours is treated as a way
12 to give the railways more money or alternately to give
13 them less, there are any one of a hundred suggestions
14 which can do that indirectly, but that is not the
15 purpose of this scheme. The purpose of this scheme
16 is to put the maximum rate which by virtue of the
17 railway's own operations is reasonable because it is
18 related to what they do without being under control.

19 Q. On page 38 you refer to the same or
20 similar traffic: would you define for me what you mean
21 by "the same or similar traffic"?

22 A. I am thinking of the transportation
23 characteristics of the traffic. In other words, I
24 think it can be agreed that steel plates, for example,
25 or coil steel or steel rods, just to take three of
26 them, all have the same transportation characteristics.
27 They move in the same kind of equipment, they move at
28 80, 100, 120 thousand pounds minimum. While they
29 are different commodities in a commercial sense, their
30 transportation characteristics are virtually the same



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2 and so this would be "the same or similar".

3 COMMISSIONER MANN: The value content ceases
4 to be of any importance -- differences in value of the
5 commodity, for instance, under your system would be
6 ignored?

7 THE WITNESS: Yes, sir. That is, at the
8 bottom they would, but the railways still have this
9 rather large area within which they may operate to
10 give effect to value of service as such, but when you
11 get right down to rock bottom value of service does
12 not count, as indeed today it does not count. In
13 your competitive rate making, when you are right
14 down at the floor, value of service is not impor-
15 tant because it is purely cost.

16 MR. McDONALD: Q. Under your scheme,
17 would aluminum be taken as similar to steel?

18 A. Aluminum?

19 Q. Yes.

20 A. No, I would be surprised if it was
21 because aluminum, I don't think, has the same trans-
22 portation characteristics. It depends whether you
23 are talking about aluminum sheets or aluminum rods or
24 aluminum ingots. Aluminum is much more subject to
25 damage than, say, a 3/8th steel plate.

26 Q. Yes?

27 A. When you look at the manner in which
28 our classification is worked -- this rating by
29 analogy, and so on -- it has worked pretty satis-
30 factorilly, and there are thousands of things not



1
2 mentioned in the classification because you rate them
3 by analogy, and in a sense that is how this would work.

4 Q. You still think the classification is
5 useful in rate making?

6 A. Oh, yes.

7 Q. Another point: some rates are at a low
8 level because they are set in consideration of a higher
9 rate on the outbound product. Now, would the low
10 rate in such circumstances be taken as a standard on
11 an inbound movement where you did not have the outbound?

12 A. No, that is not similar circumstances at
13 all. I would say in those sort of instances you
14 tie the inbound and outbound together. I think you
15 have to.

16 Q. That would not be the same or similar?
17 You could not compare that to a movement where you had
18 movement of a similar product that you were moving in-
19 bound?

20 A. No, sir, I don't think you could.

21
22 ---Short recess.
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3 THE CHAIRMAN: Order, please.

4 Q. Dr. Harries, under your scheme if a
5 competitive rate were published by any railway in
6 Canada, would it affect the non-competitive rates on
7 the same or similar traffic on all other railways?

8 A. Yes, sir.

9 Q. That is to say, supposing the Canadian
10 Pacific published a competitive rate on a product it
11 might affect certain non-competitive rates on the
12 Canadian National?

13 A. Yes, sir. Rates in Canada would be, as
14 they are today, nation-wide -- handled on a national
15 basis through the railways or through C.F.A. as the case
16 may be.

17 Q. As you know, the New York Central has rates
18 in Canada from Niagara Falls through Fort Erie, Welland
19 and so on. If the New York Central were to publish a
20 competitive rate from Welland to Windsor on steel pipe,
21 for instance, to meet water competition and truck
22 competition, that would affect the rates, the non-
23 competitive rates, on steel pipe throughout Canada?

24 A. Yes, sir, it would.

25 Q. And if maximum rates were established ,
26 as you propose, would you still be interested in the
27 application of the One and One-Third Rule to Agreed
28 Charges?

29 A. No, sir, it would be covered within the
30 terms of our second brief.



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3 MR. McDONALD: Thank you very much, Dr.
4 Harries.

5 THE WITNESS: Thank you, sir.

6
7 CROSS EXAMINATION BY MR. SINCLAIR:

8 Q. Mr. Harries, I intend to deal with your
9 long and short haul brief and then your second brief.

10 A. Right, sir.

11 Q. Now, you defined, Mr. Harries, yesterday
12 the terms "equitable rate" and "sound rate
13 structure", which you used on page 11 of the long and
14 short haul brief?

15 A. Yes, sir.

16 Q. And you stated that equitable rate
17 was included within a sound rate structure but a sound
18 rate structure went further in that it dealt with
19 resource allocation?

20 A. Yes, sir.

21 Q. Do you mean transportation resource
22 allocation?

23 A. Transportation resource allocation, and
24 natural resource allocation, sir -- land, labour and
25 capital, to use the three that are usually treated in
26 economic literature.

27 Q. Well, Mr. Harries, a sound rate structure
28 would have to allow the railways to meet competition
29 where they could do so and make a contribution over their
30 variable cost.



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3 A. That is correct, sir.

4 Q. And a sound rate structure would require
5 that no statute would restrict the railways in such a
6 way that they had to carry traffic at less than cost.

7 A. They should not be required to carry
8 traffic at less than cost, yes, sir.

9 Q. Now, an equitable rate structure, do you
10 agree, would be one where the economic advantages of
11 location were not disturbed by the rate structure?

12 A. As a generality, yes, sir.

13 Q. Section 337 of the Railway Act -- that is
14 the well known One and One-Third Rule section of the
15 act --

16 A. Yes.

17 Q. Now, is it Alberta's position, do you
18 agree, that this is not of benefit to Alberta because,
19 following the enactment of that legislation the
20 following occurred: first, the railways took out some
21 of their trans-continental competitive rates; second,
22 they raised some of their trans-continental competitive
23 rates; and thirdly, they instituted contract rates,
24 agreed charges, which were held by the board. This was
25 substantiated by the second Turgeon Commission as not
26 being subject to the One and One-Third Rule. And these
27 three factors resulted in Alberta not having received
28 anything from this legislation. This is the position,
29 I think, of your province? Correct?

30 A. No, sir, I would not be able to agree



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3 with that. I would say that item No. 3, namely the
4 contract rates, is the only one that the province
5 complains of.

6 Q. But the effect is whether you complain
7 about it or not, Mr. Harries, the effect of it is that
8 the One and One-Third legislation is not at the present
9 time and has not for some years been of benefit to
10 Alberta.

11 A. It has not been of benefit since the use
12 of the agreed charge legislation on trans-continental
13 traffic became widespread.

14 THE CHAIRMAN: You would go further and say
15 it has hurt Alberta?

16 THE WITNESS: That is our position, yes, sir.
17 MR. SINCLAIR: Q. Well, Mr. Harries, you go further and say
18 it has hurt Alberta. Is that quite right? Are you
19 saying that at the present time long and short haul
20 discrimination is not of significant disadvantage to
21 Alberta?

22 A. Yes. I do not want to minimize it off
23 the map, sir. It certainly is not as important as it
24 was. In response to the Chairman -- my agreement with
25 the Chairman's suggestion takes into account that the
26 institution of agreed charges to Vancouver had the
27 effect of taking from Alberta certain advantages that
28 we believe she gained as a consequence of the One and
29 One-Third Rule.

30 Q. But you made clear in your answers to my



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3 friend, Mr. Cumming, and indeed, I think the proper
4 interpretation of your submission to this Commission
5 is that what you really are concerned about was the
6 possibility of the future or the probability of --
7 to use your words -- a surge -- and, again, your words
8 "long and short haul violations arising from market
9 competition factors on the coast"?

10 A. That most certainly, sir, is what we
11 conceive to be the important one, but that does not
12 mean that we are prepared to admit that today it is of
13 no importance.

14 Q. It is not a major matter; that is why I
15 put it of significant degree at the present time?

16 A. Well, here again, I do not want to
17 minimize it out of the way. It is important enough,
18 sir, for the province of Alberta to have prepared a
19 submission with respect to it, and I think its
20 importance must be weighed by the Commission in the
21 light of the actions of Alberta and I would leave at
22 that, sir.

23 Q. Well now, the position of Alberta and the
24 position of the rate structure arising from the results
25 of the One and One-Third Rule, I suggest to you, is
26 summarized at page 10 of the second Turgeon Commission,
27 the Turgeon Royal Commission, and I would ask you to
28 tell the Commission whether you agree with this part I
29 am going to read from page 10 of the Honourable Mr.
30 Turgeon's report:



1 "The statutory provision ..."
2
3 --- that is the One and One-Third, section 337 --
4
5 ...was acceptable to the
6 complainants (Alberta) but the
7 railways claim that it imposed
8 upon them too great a sacrifice
9 of revenue by the reduction of
10 their rates to intermediate
11 territory. Some time after the
12 adoption of the rule they revoked
13 some of their trans-continental
14 competitive rates and increased
15 others; thus showing their
16 willingness to abandon the
17 trans-continental traffic rather
18 than accept the enforced
19 reduction for the shorter haul.
20 The situation remained unsatisfactory
21 for some time. Finally, the railways
22 took steps to overcome their difficulty
23 by substituting agreed charges for
24 competitive rates on trans-continental
25 traffic"

26 Do you agree that that is a proper summary of
27 the situation?

28 A. I would, except, sir, in the second last
29 line of the first paragraph that you read. I think it
30 might be more accurate if they said this:

"...showing their willingness to



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3 abandon some of the trans-
4 continental traffic".

5 Q. All right, thank you.

6 I suggest to you, Mr. Harries, that the
7 reaction of the railways to an extension of the One
8 and One-Third Rule, such as you have proposed to this
9 Commission would once again resolve in the railways
10 taking action by cancelling agreed charges to the
11 Pacific Coast?

12 A. I am sure that is correct, sir,
13 if they thought by doing that they could get rid of
14 the One and One-Third Rule.

15 Q. And, Mr. Harries, the result of that
16 would be to deprive British Columbia of the
17 advantages of its location? Correct?

18 A. No, sir, it does not deprive British
19 Columbia of anything, which I must confess, sir, is
20 one misunderstanding that I welcome the opportunity to
21 clear up.

22 Q. Well, I will help you, Mr. Harries, if
23 you will let me.

24 A. All right, sir.

25 Q. Economically, Vancouver is closer to
26 Toronto than is Edmonton; correct?

27 A. That is correct, sir.

28 Q. And by depriving through restrictive
29 legislation the railways from maintaining agreed
30 charges to the Pacific Coast, you are depriving, I



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suggest, British Columbia of its economic advantage
that you have just agreed exists. You will not agree
with that.

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3 A. I am afraid I cannot agree with you
4 because the basis upon which British Columbia gets
5 these agreed charges or these competitive rates is
6 that there is competition. Surely, sir, unless
7 competition be complete fantasy, Vancouver, in the
8 absence of the desire or the ability of the railways
9 to meet that competition, will simply turn to
10 competition and if it turns to the competition it
11 cannot possibly lose. You see, I am left with the
12 uncomfortable feeling that we are talking about
13 depriving Vancouver of its advantages, that the
14 advantages must in part accrue from the circumstance
15 in which the railway is doing more than meet the
16 competition.

17 Q. Well, Mr. Harries, what you have
18 overlooked, I suggest to you, is that the economic
19 advantage that you destroy by restrictive legislation
20 such as you have proposed is a position that the
21 purchaser of skelp at Vancouver would have by using
22 a Canadian supply as against a laid down price from
23 Europe. If it is not an advantage to him price-wise
24 he still has the economic advantage of choice. You
25 overlooked those by saying that the alternative would
26 still be done. The alternative could be done on
27 carrier competition but not on the market competition.

28 A. Well, if it is worth money to him then
29 it ought to be restricted in the agreed charge. Just
30 to take that particular example in the movement of



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3 skelp, the rate on skelp, as I appreciate it,
4 is established as a consequence of the market
5 competition of that same product from European sources.

6 Q. Yes.

7 A. But that rating of skelp does not
8 contemplate the fact that the material when it is
9 manufactured into pipe and leaves Vancouver has got to
10 be on a "made in Canada" basis.

11 Q. It does not take into account.

12 A. No, sir.

13 Q. Why do you say that?

14 A. I am suggesting to you that the 95¢ rate
15 because it was put in a considerable period of time
16 before this other provision, does not take that into
17 account and this is a very important advantage. I
18 would not question that at all. That is why I am
19 sometimes left with the feeling that perhaps the
20 Canadian Railways and the Canadian manufacturers go
21 a step further than just meeting competition and if
22 they do, of course, I must confess your proposition is
23 correct that by cancelling those rates, be they contract
24 or competitive, there would be a disadvantage to
25 Vancouver. Our point has always been that it would
26 be an unfair disadvantage that they originally were
27 not entitled to because if you have got competition
28 by withdrawing one element temporarily you cannot
29 hurt the purchaser.

30 Q. Mr. Harries, let us start with this



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3 very basic proposition with which I think you will
4 agree; it is an advantage, an economic advantage
5 at Vancouver to have freedom of choice on manufactured
6 goods:

7 A. Certainly.

8 Q. It is, secondly, an economic advantage
9 on the coast to the alternative suppliers?

10 A. The more the better.

11 Q. Alternative suppliers, correct?

12 A. That is correct, sir.

13 Q. And anything that upsets that must
14 resolve itself to the disadvantage of the Vancouver
15 situation. Correct?

16 A. There is always the theoretical
17 possibility, yes sir.

18 THE CHAIRMAN: Are we to understand, Dr.
19 Harries, that if your scheme in Part II were adopted
20 then the One and One-Third Rule could be repealed?

21 THE WITNESS: Yes, sir.

22 MR. SINCLAIR: . Of course, Mr. Chairman,
23 I think these submissions must stand on their own
24 basis. I will deal with the second brief later but I
25 would like to keep to this one if I may first.

26 THE CHAIRMAN: Very well.

27 MR. SINCLAIR: Q. Now, you are not
28 suggesting that potential competition is just as
29 meaningful as active?

30 A. I am not suggesting it is just as



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3 meaningful as active?

4 Q. It is not just as meaningful as active.

5 A. I think potential competition has to be
6 considered, certainly.

7 Q. And you are not suggesting that when the
8 Turgeon Commission, the second Turgeon Commission dealt
9 with the matter and made findings that actual and
10 potential competition were very much not alleged but
11 proven ?

12 A. No, I will not question the proposition
13 but there is actual and potential competition in
14 Vancouver.

15 Q. On page 20 of the brief I made a little
16 note that you said the railways opposed the proposition
17 advanced by Alberta. The railway opposition was based
18 upon the alleged-you do not mean that as a lawyer
19 would, alleged but not proven?

20 A. No, I will not accept as proven the actual
21 water competition. It should be railway opposition
22 there based upon alleged actual water competition
23 and potential competition.

24 Q. And you do not think the actual was proved?

25 A. I do not think it was actually proved that
26 there was water transportation from Eastern Canada through
27 the Panama Canal to Vancouver.

28 Q. Would you look at page 39 of Mr. Turgeon's
29 report. At the bottom of the page where he says:

30 "As an indication of the intensity



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3 of this competition, evidence was
4 adduced by the province of British
5 Columbia that in the years 1951,
6 1952 and 1953 water borne traffic
7 from Eastern Canada into British
8 Columbia was 6,335, 29,592 and
9 38,376 tons respectively."

10 Is that not proof of actual tonnage movement
11 and increasing tonnage movement of Panama Canal
12 competition?

13 A. Yes.

14 Q. You overlooked it?

15 A. I think that is --

16 MR. FRAWLEY: The witness has not quite
17 answered, just give him a chance.

18 MR. SINCLAIR: Q. Do you want to add
19 anything to that.

20 A. If you do not mind my taking a moment
21 I would like to read this.

22 Q. Oh, of course.

23 THE CHAIRMAN: He was thinking of Mr.
24 Brazier's ship.

25 MR. SINCLAIR: Q. The next step is Mr.
26 Brazier's ship.

27 A. I will accept the report of the Royal
28 Commission, certainly.

29 Q. Now, as a man that is interested in this
30 water movement from the East to the West you know today



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3 there are regular advertised sailings from Eastern
4 Canada to the Pacific Coast?

5 A. Yes, I have seen some of them.

6 Q. And there is one shipping line,
7 Saguenay Terminals that have been operating for a good
8 many years in this service. Correct?

9 A. I understand they have been operating
10 but I do not know how frequently or what tonnage.

11 Q. So we have now cleaned up this situation,
12 I think as far as I am concerned, to my satisfaction
13 unless you want to add something.

14 MR. FRAWLEY: It is nice to have it cleared
15 up to your satisfaction.

16 MR. SINCLAIR: I was trying to be fair to
17 Mr. Harries so he could have all the time he needs as
18 you requested.

19 MR. FRAWLEY: I am sure.

20 THE WITNESS: I have no questions.

21 MR. SINCLAIR: Q. Now, there was one point
22 that I meant to put to you earlier. Would you agree
23 that Alberta cannot be prejudiced -- ?

24 A. Is that the full question?

25 Q. Well, my answer to that is that if that
26 is the question I know your answer but it would only
27 be a hypothesis that I think would take you a great
28 deal of time to prove and I am not going to give you
29 that opportunity because I think I can list so many
30 advantages that you would be embarrassed before we got



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3 finished. Let me now put to you a point I really had
4 in mind. Would you agree that an Albertan shipper
5 would not be prejudiced if an agreed charge was
6 instituted by the railways to meet market competition
7 at the coast in that the Albertan, if he was
8 prejudiced in any way under the Transport Act could
9 apply for and if the railways would not meet it give
10 him, through the board, a fixed charge?

11 A. Yes, that is correct.

12 Q. Mr. Harries, manufacturers of skelp
13 in Eastern Canada sell their products at the coast at
14 a lower price than they do in Edmonton because they
15 have to meet competition at the coast. Would you
16 suggest to this Commission that the manufacturers of
17 skelp that a law should be passed applicable to them
18 to preclude them from discriminating against the
19 Alberta purchaser of skelp.

20 A. Actually the manufacturers of skelp
21 sell their product at their plant at the same price
22 to those people at the coast and those people at
23 Edmonton. The freight rate is a thing that
24 introduces a different f.o.b. Edmonton or Vancouver
25 cost.

26 Q. I suggest to you you are wrong. Have
27 you checked? I suggest to you that you can buy skelp
28 laid down in Vancouver from Eastern manufacturers
29 irregardless of any freight factor in it lower than
30 you can buy it at Edmonton. Have you called for
quotations?



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3 A. No, sir.

4 Q. And I suggest to you that this is a
5 normal business practice of manufacturers of meeting
6 competition where it exists and charging a lower price
7 to meet the competition. Even if they at an inter-
8 mediate point charge higher after that point on to
9 meet competition this is normal.

10 A. Competition sets the price.

11 Q. And there is no restrictive legislation
12 to preclude the ordinary businessman from doing that
13 that you know of?

14 A. Not that I know of, sir.

15 Q. Would you tell me this: in Alberta can
16 a truck practice long and short haul discrimination?

17 A. Oh yes, but it is highly unlikely that
18 it would.

19 Q. It can do it?

20 A. Oh yes.

21 Q. Are you suggesting that legislation be
22 passed by the province of Alberta to preclude trucks
23 from practising long and short haul discrimination in
24 Alberta?

25 A. No, sir.

26 Q. On traffic moving by truck from Eastern
27 to Western Canada can trucks practice long and short
28 haul discrimination?

29 A. Yes, sir.
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4 Q. Are you suggesting that they be
5 restricted in doing this?

6 A. No, sir, because I do not think it is
7 a problem.

8 Q. Do water carriers practice long and
9 short haul discriminations?

10 A. Yes.

11 Q. For instance, Hamilton to Montreal
12 being higher than Hamilton to Halifax, do you think
13 that should be precluded?

14 A. That is a problem for the shippers down
15 in Eastern Canada.

16 A. All right, let me give you a problem
17 that is possibly a little closer to where you live,
18 say Montreal to Vancouver being higher than
19 Montreal to C.P.C. on the West Coast of Vancouver
20 Island?

21 A. That is not awfully close to where I
22 live.

23 Q. The reason I have taken that place is
24 because it is a place where you cannot get a
25 combination to take advantage of the lower rate and
26 this, in that way, would affect Alberta. Do you
27 think that should be prohibited?

28 A. From Alberta's standpoint we are not
29 interested in it.

30 Q. You are not interested in the fact that



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3 you are being precluded from the lower combination
4 rate by virtue of the fact that water carriers
5 practice long and short haul discrimination?

6 A. No, from Montreal to Vancouver and
7 Halifax to some other place -- no, sir.

8 Q. In principle, then, and as an
9 economist would you be against it?

10 A. I think there should be a restriction
11 on the extent to which long and short haul
12 discrimination could be practised.

13 Q. By trucks? By water carriers?

14
15 A. Yes, sir

16 Q. So this is one place where you would
17 regulate trucking?

18 A. Yes.

19 Q. And this is one place where you regulate
20 inter-coastal and coastal shipping?

21 A. If in fact -- I am not familiar with
22 it -- they were exceeding by more than 33 1/3 percent
23 the rates to the intermediate points. You ask me in
24 theory and I answer you in theory, yes. However, from
25 a practical standpoint I would be amazed if it was
26 necessary. I have not studied it.

27 Q. Well, it may be that the probability
28 even though it is significant was not apparent you
29 would justify it? That is a possibility too, is it
30 not?



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3 A. If it can be shown it is likely to be a
4 problem in the future I would think Mr. Brazier or
5 whoever is concerned with it would take a look at it.
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2 Q. Mr. Brazier has never been concerned
3 with long and short haul discrimination. He is an
4 economic realist; you know that?

5 A. Was that "realist" or "royalist"?

6 Q. I said "realist". Albertans are
7 the Royalists.

8 Mr. Harries, the next point I want you to
9 look at is at page 21. Here is where you deal with
10 what you say are the railways' propositions in support
11 of their use of the long and short haul discrimination
12 -- and by the way, just so that you and I don't get
13 mixed up, I take it that discrimination is another way
14 of having differential pricing? It is synonymous with
15 the term, "differential pricing" in so far as you are
16 using it is concerned?

17 A. Yes, sir, as a generality that is cor-
18 rect.

19 Q. And on pages 21, 22 and 23 of your
20 brief you deal with what you say are the bases of
21 the railways justifying long and short haul discrimina-
22 tion. The first one, you say that the railways
23 justify the lower rate at the distant point without
24 reflecting it at the intermediate point and that the
25 railway argument is valid only if the traffic which
26 the competitive rate seeks to obtain for the railway
27 can be handled without an outlay of capital funds for
28 increased equipment or facilities. My suggestion to
29 you is this, that in the determination of variable
30 costs you have overlooked that these variable costs



1
2 include the cost of capital of the variable portions
3 of investment both in equipment and road plant?

4 A. I am prepared to accept that. If your
5 costing procedures take into account all of these matters,
6 why then, the suggestion that I have made is not a cor-
7 rect one -- to the extent that you cover all your costs.

8 Q. All our variable costs of capital?

9 A. Yes, sir.

10 Q. And as the Commission knows, this is
11 basic to costing and it has been explained and it is
12 on the record.

13 MR. FRAWLEY: It is just half explained.

14 MR. SINCLAIR: Oh, well, we have waited for
15 the rest of that explanation so long, Mr. Chairman, I
16 am surprised that my friend would even suggest that to
17 me at this moment.

18 MR. FRAWLEY: Well, will we not wait any
19 longer? Will we not be heard with the other half?

20 MR. SINCLAIR: We will be reading it this
21 Friday.

22 THE CHAIRMAN: You used the term "if the
23 traffic": does that mean all traffic -- no segments?

24 THE WITNESS: It means all the traffic,
25 sir.

26 MR. SINCLAIR: Q. It means that variable
27 investment costs are to be included in variable costs?

28 A. That is correct, sir.

29 Q. Your second point: this is really based
30 on a question of judgment, that is, whether the revenue



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2 position of the carriers is improved by their actions
3 -- and I am talking net revenue position -- whether the
4 net revenue position of the carriers is improved by
5 their action in setting up long and short haul dis-
6 crimination, and this is a matter of judgment based on
7 costs, market analyses and experience of traffic officers;
8 correct?

9 A. I think it must give recognition to
10 accounting too.

11 Q. Well, I included that in costs.

12 A. Yes.

13 Q. Costs is taken into it?

14 A. That is correct.

15 Q. And, for instance, Dr. Currie whom you
16 quote in there overlooks, I suggest, two things: one
17 is that through the use of agreed charges the railways
18 can fix a rate through negotiation and take 100 per
19 cent of the traffic and not share it with competing
20 carriers; that is correct

21 A. In the short term, yes, sir.

22 Q. Well, for instance, take a look at your
23 page 7, table 1?

24 A. Yes, sir.

25 Q. I suggest to you out of those sixteen
26 commodities listed there on agreed charges to the coast
27 all but four are 100 per cent, and of those four two are
28 95 per cent and the other two are 90 per cent; did you
29 know that?

30 A. I hadn't checked that particular matter.



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2 Q. Would you accept my statement subject
3 to checking it?

4 A. Yes, sir, certainly.

5 Q. And the two that are 95 are electrodes,
6 and iron and steel plate, and the two 90s are window
7 glass and paint. The rest are 100 per cent. So, in
8 so far as there is 100 per cent there is no sharing?

9 A. That is correct.

10 Q. And in so far as there is to be sharing
11 the railway traffic officers, the cost analysts and
12 the market analysts that work for the railways are able
13 to give weight to that factor in their decision making
14 as to whether it is, net revenue-wise, advantageous
15 for the railways to put in the rate at the distant
16 point?

17 A. That is correct, but I would suggest to
18 you that this argument must recognize somewhat longer
19 term than your traffic officers might immediately be
20 concerned with. In other words, this is not a thing
21 that is going to happen overnight, but it is not un-
22 reasonable to suggest it is something which may happen
23 in the course of ten years.

24 Q. Well, of course, as you know, the railways
25 have economic analyses made, long-term analyses, and the
26 Canadian Pacific has been active in this field?

27 A. Yes, that is correct.

28 Q. Now, let us take your No. 3: here you
29 suggest that if the revenue test is to be applied, in
30 logic this can be extended to the whole gamut of



1
2 discrimination including personal discrimination?

3 A. That is correct.

4 Q. Dr. Harries -- and I think you went so
5 far yesterday as to say on this basis the discrimination
6 sections of the Railway Act in their entirety should
7 be repealed?

8 A. Yes.

9 Q. Now, Dr. Harries, in principle personal
10 discrimination is illegal because, I suggest to you,
11 it gives the railways a weapon to pick and choose
12 between shippers and to pick and choose between areas
13 and for that reason it is denied?

14 A. Yes, I am sure that is one of the ---

15 Q. That is the reason -- historically; and
16 it is the justification at any time a person wants to
17 support the personal discrimination restriction?

18 A. That is correct.

19 Q. With respect to carrier competition and
20 discrimination arising from meeting carrier competition,
21 it has been recognized that it is not the railway that
22 is setting the discrimination but it is a third party,
23 and it is for this reason the railways are allowed to
24 meet it; correct?

25 A. Yes, that is reasonable, I think.

26 Q. And the same argument and the same basis
27 is applied to external market competition being a
28 justification for discrimination?

29 A. Yes, that has been the view.

30 Q. Now, with respect to internal market



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2 competition, if the railways practise it it enables
3 them to pick and choose between areas and, therefore,
4 in doing it they would abridge the area discrimination
5 sections of the Railway Act; correct?

6 A. Will you give me the reference to the
7 area discrimination section? Maybe I can answer your
8 question better.

9 Q. It is Section 317(4).

10 A. No, I don't think your suggestion -- I
11 don't know of instances where -- let me put it that
12 way -- where the unjust discrimination between different
13 localities would rule out the use of market rates.

14 Q. Internal market -- you don't?

15 A. No, sir.

16 Q. Let me give you an example: I have
17 a common market A; I have two shipping points, B and C
18 which are equidistant from A. The shipping points
19 B and C are manufacturing steel billets; the railways
20 recognize that the manufacturer at point C has not
21 got economies of scale and so, therefore, to assist him
22 in meeting economies of scale they give him a rate
23 15 per cent below the manufacturer at the equidistant
24 point who is his competitor in the common market.
25 You say that is lawful under the Railway Act?

26 A. As a market competitive rate, no. I
27 think in the restrictive circumstances you have out-
28 lined that B would certainly have a good case.

29 Q. Well, this is practising internal
30 market discrimination?



1
2 A. My view of it -- which I am always
3 prepared to admit may not be correct -- is that it is
4 never quite this simple and direct, that you usually
5 get some element of carrier competition involved with it,
6 but, in fact, what happens is that the railways reduce
7 the rate to get this particular shipper into the market.

8 Now, to take your example: you have a point A
9 and a point C, and C has been shipping material to A
10 for the last twenty-five years all by rail and there is
11 a long, happy association between the shipper at C and
12 the railways. Somebody comes along and puts up a
13 plant at A to manufacture the goods that C has formerly
14 been supplying. There is every possibility that the
15 rates from C to A will be reduced.

16 Q. On what basis?

17 A. To meet the competition in the area
18 surrounding A which was formerly the almost exclusive
19 preserve of the shipper at C.

20 Q. Yesterday you said that the railways on a
21 number of occasions -- and I was urged by my friend Mr.
22 Frawley to make a note so that you could give us some
23 examples, and I know you have been thinking of them
24 overnight; so, can you give me ten examples of instances
25 where the railways -- or five, if ten is too big a
26 job; give me five where the railways have put in
27 rates on the basis of meeting internal market com-
28 petition?

29 COMMISSIONER MANN: I am not familiar with
30 the case enough to know the answer for it, but there was



1
2 a case not very long ago before the Board of Transport
3 Commissioners concerning rates on cement clinker.

4 MR. SINCLAIR: Yes.

5 COMMISSIONER MANN: Well, is that internal
6 market competition?

7 MR. SINCLAIR: I would say not.

8 THE WITNESS: Well, that is one of them.

9 MR. SINCLAIR: I would say there was an
10 attempt made by certain people to put it on the basis
11 of that, which was not successful.

12 COMMISSIONER MANN: Was not one of the
13 railways ordered to reduce the rates?

14 MR. SINCLAIR: One of the railways was ordered
15 to increase a rate.

16 COMMISSIONER MANN: I see.

17 THE WITNESS: I am sorry, sir; if that is not
18 acceptable as an example, that is one that I was going
19 to mention that seems to me to be a perfectly obvious
20 example of what we were discussing.

21 MR. SINCLAIR: This is an unusual case, and
22 I would suggest you have to look, Mr. Commissioner Mann,
23 seeing you have raised it, to the full record in that
24 case. There is an agreement involved in behind there
25 and certain restrictions that one of the railways thought
26 they were under, and the suggestion made there that this
27 was market competition by the Canadian Pacific -- and
28 that is why it has been directed to me, I am sure --
29 was not adhered to and was not accepted by the Board.

30 THE CHAIRMAN: That had to do with Exshaw.



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2 MR. FRAWLEY: It had to do with moving the
3 Exshaw plant into the suburbs of Edmonton. It will
4 speak for itself: all the judgments speak for them-
5 selves, and the Board's files.

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7 ---Luncheon adjournment.
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2 ---On resuming at 2.00 p.m.

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4 CROSS-EXAMINATION BY MR. SINCLAIR (resumed):

5 Q. Mr. Harries, just prior to the noon ad-
6 journment we were discussing internal market competition
7 and I had asked you for examples of where the railways
8 had, through rate action, met internal market com-
9 petition. Have you any examples?

10 A. Well, I was offering the cement case in
11 Alberta.

12 Q. That is the so-called clinker case?

13 A. Yes, sir.

14 Q. On that one, you know, Mr. Harries, there
15 was proof offered of truck competition; it was accepted
16 by the Board of Transport Commissioners, and that was
17 the justification for the rate?

18 MR. FRAWLEY: No, I think my friend is
19 thinking about what we call the second case, where
20 you put in a rate of 19 cents. You increased the rate.
21 After you were ordered by the Board to take out the
22 12-cent rate, you filed a rate of 19 cents and called
23 that a truck competitive rate. We challenged that, and
24 on that you established to the satisfaction of the
25 Board that there was some truck competition, and the
26 Board refused to disallow it. But, with respect, I
27 think Mr. Harries is talking about the first rate you
28 filed of 12 cents which, as I said this morning, was
29 moving into Edmonton.

30 MR. SINCLAIR: And the Board refused to allow



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2 us to do that.

3 MR. FRAWLEY: That is right, the Board
4 threw out the 12-cent rate.

5 MR. SINCLAIR: Thank you, Mr. Frawley, I
6 think I agree with that. That clears the record on
7 that case.

8 Q. But the point that I want to cover with
9 you, Mr. Harries, is examples of where the railways had
10 by rate action rates in effect to meet internal market
11 competition?

12 A. Yes, sir. Well, the case I was refer-
13 ring to, just for the record, sir, is to be found in
14 J.O.R. & R., Volume XLIV, September 15, 1956, No. 12.
15 I can only say this, sir, that I read the case; I was
16 familiar with it, and it was my conclusion that that
17 is an example of the kind of thing you are asking me.

18 Now, with respect to other examples ---

19 Q. No, but that case -- the railways were
20 precluded in that case, Mr. Harries, in its final
21 conclusion, as Mr. Frawley has just said, from in-
22 stituting a rate other than on a truck competitive basis.
23 On a market competitive basis it would not stand under
24 the Act? Correct?

25 A. That is correct, sir, but the reason for
26 the Board not accepting that rate is, I would suggest,
27 related more to the question of the relationship that
28 existed between the limestone rate and the clinker rate.
29 In other words, I would not, in my reading of the case,
30 be prepared to admit, sir, that this is an example that



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2 proves that the Board will not permit market competitive
3 rates internally. But I can read some excerpts from
4 the case, sir, which I think gives support to the position
5 I am taking, but I would rather, sir, leave the case to
6 speak for itself, as the Commission may wish to read
7 it.

8 Q. Certainly.

9 A. With respect to your other example, sir,
10 I have some in mind which, with the permission of the
11 Board, I will not detail at this time until I have had
12 an opportunity to have one of the people in the office
13 check the tariffs so I can give you a complete report
14 on the cases which I have in mind. I hope, sir, that
15 will be of assistance to you and the Board.

16 Q. Yes, that would be satisfactory to me.

17 A. There is one point I would wish to mention,
18 sir ---

19 Q. You are going to give me rates and cases?

20 A. Yes.

21 MR. SINCLAIR: That will be fine, Mr. Chairman.

22 THE WITNESS: There is one thing I wish to
23 mention, if I may be permitted to do so, sir, and it is
24 this, that in our consulting business we analysed the
25 feasibility of various manufacturing and extractive
26 industrial schemes. As you will appreciate, one of the
27 problems that always comes up in connection with price
28 is what the competitors who are now in the market are
29 going to be able to do. Quite frequently, we find that
30 the price is related to the existing cost of transportation



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2 from the area outside Alberta.

3 Q. Pardon me -- that the existing price ---

4 A. Price in Alberta ---

5 Q. Yes?

6 A. --- is related to the mill price out-
7 side Alberta, plus the cost of transportation into
8 Alberta. So, in doing a feasibility study, we must
9 always have in mind a price structure which is not out
10 of sympathy with the existing price structure which,
11 as I suggest, is based on f.o.b. plant plus trans-
12 portation. I can tell the Commission, sir, without
13 getting specific, I trust, that we have never done
14 one of those studies where we do not make an allow-
15 ance for a new freight rate which we are convinced
16 will come as a consequence of the location of this
17 facility in Alberta.

18 In other words, we always have in those kinds
19 of studies a column which says "existing freight rates"
20 and then a column which says "probable freight rates."
21 The reason we do that is because it has been our
22 experience, sir, that it would be misleading to do a
23 feasibility study on the assumption that the existing
24 rates from a manufacturing point outside the province
25 to a market inside the province will remain at their
26 present level if there is constructed within the
27 province a plant to manufacture the material that is
28 being imported.

29 Q. Mr. Harries, do you tell your clients,
30 as a footnote, that this lower rate that you call



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2 "probable freight rate" cannot be supported unless
3 there is carrier competition to justify the lower
4 rate?

5 A. No, sir, we don't put any footnote of
6 that kind because, as I suggested to you earlier, it
7 has been our experience that these rates do drop down.

8 Q. Have you ever attacked any of them on
9 behalf of your clients?

10 A. No, sir, I do not think we have, because,
11 quite frankly, I consider it to be the essence of good
12 sense as far as the railways are concerned to try and
13 retain their long haul traffic to a market. I have
14 no quarrel with it at all. It seems to me, sir,
15 that it would be shortsighted on the part of the rail-
16 ways if they do not try to maintain that long haul
17 traffic. That is good business.

18 MR. SINCLAIR: Well, our position on that
19 we will give at another time.

20 COMMISSIONER PLATT: Supposing you had a
21 plant in Hamilton which was manufacturing widgets
22 and selling them into the Edmonton market, and a
23 plant in Calgary started up making the same articles,
24 importing some of their raw material, perhaps, and
25 also selling in the Edmonton market ---

26 THE WITNESS: Yes, sir.

27 COMMISSIONER PLATT: Their costs of pro-
28 duction are higher. They have not got scale and they
29 have other costs for raw material and what not, but
30 because of the transportation differential, they are



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2 successful?

3 THE WITNESS: That is correct, sir.

4 COMMISSIONER PLATT: And gradually they
5 are taking this market away from the manufacturer in
6 Hamilton. If the manufacturer in Hamilton were
7 to keep an agreed charge, this would accomplish, would
8 it not, his purpose without the issue being market
9 preference?

10 THE WITNESS: Yes, sir.

11 COMMISSIONER PLATT: It could be argued
12 very logically. I think the mere fact he got an
13 agreed charge and agreed to ship would be sufficient
14 to reduce the rate, without the railways knowing or
15 caring what the market situation was.

16 THE WITNESS: That is correct, sir, and I
17 may say, sir, that it happens. It is not always
18 clearcut market competition. Once you start to
19 get a squeeze on somebody who has enjoyed a large
20 percentage of existing market, he does everything he
21 can to retain a hold in that market and he is benefited
22 by competitive rates to get into that market. That
23 is my proposition, sir. I am rather surprised that
24 it is being questioned, because it seems to me to be
25 fairly logical.

26 MR. SINCLAIR: With respect, sir, under the
27 Transport Act the proposition that you put forward
28 in my opinion would be illegal, because what you have
29 done is said that the railways put in an agreed charge
30 for 100 per cent of the traffic on the basis of



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2 securing a rate lower than would otherwise apply
3 based on market competition from Calgary.

4 COMMISSIONER PLATT: Oh, no, you misunderstood
5 me, Mr. Sinclair. As a manufacturer in Hamilton, I
6 come to you and I do not say anything about the trouble
7 I am having with this person in Calgary ; I just say I
8 think if I am going to ship 100 per cent of my product
9 over your railroad I deserve a better deal.

10 MR. SINCLAIR: That is not the way that
11 charges work. You would have to come to the railway
12 and you would have to say, "Now, sir, I have a potential
13 or an actual movement by another carrier -- either from
14 Hamilton, water, truck or some combination, or all
15 truck to Edmonton."

16 You would have to demonstrate to the railways
17 that that was not a fictitious situation of carrier
18 competition where the railways would not deal with
19 it.

20 COMMISSIONER PLATT: Well, you know how the
21 railways deal with it. I am just trying to find out.

22 MR. SINCLAIR: I do not want to give evidence
23 on these matters. I suggest I will have somebody
24 deal with that kind of situation, Commissioner Platt.

25 COMMISSIONER MANN: If you are going to
26 do that, Mr. Sinclair, perhaps you might want to cover
27 this as well. Take Commissioner Platt's example of
28 the plant that is a short distance away from the
29 market versus the plant a long distance away from the
30 market, and postulating the short haul plant uses



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2 alternate media of transportation exclusively, would
3 the railways then be justified in putting in a com-
4 petitive rate or an agreed charge for the long haul
5 shipper to meet what is then possibly carrier com-
6 petition?

7 MR. SINCLAIR: I will have that dealt with,
8 too.

9 COMMISSIONER MANN: Thank you, Mr. Sinclair.

10 MR. SINCLAIR: This is an extension of the
11 same principle?

12 COMMISSIONER MANN: Yes, that is right.

13 MR. SINCLAIR: Very well, sir.

14 COMMISSIONER MANN: Thank you very much.

15 MR. SINCLAIR: Fine, thank you.

16 Q. Now, Mr. Harries, I am going to leave
17 internal market competition. We have dealt with three
18 of the four elements that you set out in pages 21, 22 and
19 23, and let us go to the fourth one. This is the
20 fourth basis on which the railways justify their long
21 and short haul discrimination. Your first point here
22 on the attack on the railways' basis was that you say,
23 and I am quoting you:

24 "(1) That if the railway reduces the
25 rate to meet competition the competing
26 carrier will not reduce his rate."

27 I suggest to you, Mr. Harries, that you have overlooked
28 that it is for this very reason that agreed charges
29 were instituted and why the railways use agreed charges
30 just to prevent this very thing from happening?



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2 A. I quite agree with you, sir. We must
3 also remember, though, that the agreed charges can
4 be cancelled at the end of 15 months.

5 Q. They can be cancelled after 15 months
6 in the first instance, yes.

7 A. And, consequently, sir, this argument I
8 do not think is proved in that regard by the institution
9 of an agreed charge. It does not mean immediately the
10 railways publish a rate an alternate carrier can do
11 anything about it. But it puts the target a little
12 further off.

13 Q. It puts the target a little further
14 off? A minimum of 15 months?

15 A. Yes, that is correct.

16 Q. And it also enables the railway to, oh,
17 adjust loading characteristics and various things with
18 the shipper in that period, if the competition is
19 still potential and is an instance for another agreed
20 charge. It gives the railways manoeuvrability and
21 enables them to figure out ways of meeting the com-
22 petition with the shipper?

23 A. Oh, it certainly gives the railways
24 an advantage, sir, but the argument still holds, I
25 suggest.

26 Q. It is a matter of argument, Mr. Harries.
27 The second point you put, dealing with the
28 railway traffic volume, you say:

29 "(2) That the railway traffic volume
30 will increase so that gross revenues from



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2 the movement also increase."

3 A. Yes, sir.

4 Q. I suggest to you, Mr. Harries, that it
5 does not necessarily have to be either. Rate action
6 could be taken to hold traffic, rather than to gain
7 new traffic?

8 A. Yes, it could be put in. An agreed
9 charge could be put in to hold existing traffic and
10 this would cover the potential side of the competitive
11 picture.

12 Q. And, then, also in respect to growth
13 revenues by incentive loading, by car change, by car
14 release, and various other ways of reducing costs,
15 you might even have a fall on gross revenue but an
16 increase in net; correct?

17 A. Yes, you could have a fall in gross
18 revenue in that circumstance.

19 Q. Now, I am sorry, Mr. Harries, to bring
20 you back to another point that I did wish to discuss
21 with you when I was dealing with some of these matters
22 this morning. You made clear yesterday that inter-
23 coastal carrier competition could take place in foreign
24 bottoms; foreign ships?

25 A. Yes, sir.

26 Q. And the result of your proposal, I
27 suggest, would be to assist foreign shipping to compete
28 with Canadian carriers?

29 A. I hardly think so, sir.

30 Q. Let me see if I can put this to you and



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2 then see if you can then agree with me.

3 In the United States in recent years an
4 analysis of the fourth section transcontinental cases
5 will show, I suggest, that the opposition to the
6 application of the railways for fourth sectional
7 relief is not by intermediate shippers or areas but
8 by water carriers who are hiding behind the fourth
9 section and the advantage that gives them. Do you
10 agree?

11 A. I am not familiar enough to agree, sir,
12 but I will accept that as an assumption, if it is
13 necessary to the rest of the question. I have not
14 considered that part of it. The next witness will
15 probably be able to help you on that, sir, but I
16 will accept it for purposes of your question.

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3 Q. Well, assuming that what I have said to
4 you to be the result of an analysis of a section of
5 the trans-continental service in the United States
6 in recent years, this indicates that restrictions
7 from prohibition against long and short haul
8 discrimination did advantageously protect water
9 carriers against land carriers.

10 A. There is no question that the water
11 carrier is going to be in a better competitive
12 position with the intermediate hold - down that they
13 have in the United States than he would be in the
14 absence of it. That has been the result of a good
15 deal of Canadian Pacific evidence over the years on
16 this subject. There is no doubt about it.

17 Q. And therefore where we have trade to the
18 United States, the foreign buyer on the inter-coastal
19 trade, you have foreign shipping as against Canadian?

20 A. That is right. If we want to take the
21 thing one step further, we could exchange to the
22 foreigners and they would be able to buy Canadian
23 wheat and the Canadian Pacific Railways would get
24 more business hauling wheat than steel to the coast.
25 This is a logical extension of the argument.

26 Q. Well, what the logical extension of the
27 argument is you have your say and I will have mine
28 later on.

29 COMMISSIONER MANN: Perhaps we should have
30 some clarification on this bottom business, foreign



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3 bottoms in this case are British Commonwealth?

4 MR. SINCLAIR: Still foreign.

5 COMMISSIONER MANN: I wondered if whether they
6 would be Liberian.

7 MR. SINCLAIR: British registry.

8 COMMISSIONER MANN: Commonwealth?

9 MR. SINCLAIR: British registry or Hong Kong
10 registry. Now, if you look at page 28 here you advance
11 a hypothesis and attempt to prove it by saying this,
12 referring to the second Turgeon Royal Commission:

13 "The Commission expressed the view
14 that there would be no substantial
15 benefit to intermediate territory".

16 This is arising from the proposition that
17 you had before the second Turgeon Royal Commission
18 which you have reinstituted and put before this
19 Commission. Then you say:

20 "The immediate consequence of
21 restriction of the long and
22 short haul discrimination
23 might, in a restricted
24 dollar and cents standpoint,
25 be limited but this surely is a
26 most effective argument against
27 the allegation of the railways
28 that the revenue loss resulting
29 from the application of the rule
30 would be highly significant."



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3 I suggest to you, Mr. Harries, that
4 obviously you have misconstrued it that the revenue
5 loss to the railways which would be significant would
6 arise from them cancelling agreed charges at the coast.
7 That is the way the significant loss of the railway
8 revenues would arise. Do you see that?

9 A. Yes, that is right. I do not think I
10 misconstrued it. What I am saying is that there might be
11 a loss initially but going back to the thing that Dr.
12 Currie has said in his book that over a period of time
13 with no long and short haul discriminations of
14 consequence in the intermediate territory you are going
15 to get a build-up in that territory of traffic which
16 will be of benefit to the railways and will not be a
17 revenue loss.

18 MR. SINCLAIR: Of course that is what Dr.
19 Currie thinks but there are other economic writers in
20 transportation who take exactly the contrary view and
21 that is the view of the economists and the traffic men
22 of the railways.

23 A. Oh, I am sure there is a reason for a
24 difference of view. I am simply suggesting to you we
25 did not miscontrue what the Royal Commission said by
26 making this statement.

27 THE CHAIRMAN: It is a free country.

28 MR. SINCLAIR: You see, Mr. Harries, you
29 make your or attempt to make a point that a distributor
30 suffers disability under long and short haul



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3 discrimination.

4 A. Yes, sir.

5 Q. And yet quite frankly you indicated
6 yesterday as you do in all your answers that
7 transportation costs were only one of many factors that
8 determined distributor location.

9 A. That is right, sir.

10 Q. And there is a marked difference between
11 the situation in Canada than the case in the United
12 States at Spokane where there is one of about three-
13 hundred miles, Spokane to Seattle as against Edmonton
14 to Vancouver of around seven-hundred something.

15 A. Seven-hundred and fifty. I have not
16 looked into the Spokane area at all, that is another
17 witness.

18 Q. You indicated in your brief, you made
19 mention of it at page 32. In answer to my friend,
20 Mr. Cumming, yesterday and dealing with the distributor
21 problem you said that the consumer disadvantage moved
22 from the distributor disadvantage and you said this in
23 your brief too in another way.

24 A. Yes, sir.

25 Q. And then you went on to say to Mr.
26 Cumming that if the distributor's cost went down the
27 price would go down.

28 A. His market area would increase and the
29 price in the core area would decrease, yes, sir.

30 Q. But there is no requirement on a



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3 distributor to reduce prices merely because there is
4 reduction in one element of cost?

5 A. No, sir, none at all.

6 Q. And they do not necessarily follow.

7 A. Usually in a competitive business such
8 as the distributor business in the hardware and things
9 like that, they do follow.

10 Q. But the distributor business, I suggest to
11 you, in economics is the outstanding example of where
12 it does not happen because distributors are based on
13 licenses and you have an agency and various things like
14 that. This is one place in economics where relationship
15 between price and cost is difficult to trace.

16 A. In my experience I have found that
17 distributors are dedicated to the percentage of cost
18 proposition. In other words, they work on a straight
19 mark-up; "X" percent on this type of thing and "Y"
20 percent on that and if there is any change in their
21 inbound or laid down cost up goes the price by that
22 percentage. I think it is probably a good assumption
23 to say they are price responsive in that regard.

24 Q. Are you saying your analysis of
25 distributors indicates a basic mark-up over laid down
26 costs? That is what you are saying?

27 A. Definitely.

28 Q. And they do not follow differential
29 pricing other than in that degree?

30 A. Well, once again I do not want to make



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3 a blanket statement because I am sure there are many
4 exceptions to it but as a rule my experience indicates
5 that the distributor uses the percentage mark-up.

6 Q. Surely we have an outstanding example of
7 how to test it right in Alberta; when the bridge
8 subsidy was instituted and rates went down was there
9 minimum reduction in the cost of consumer goods to the
10 City of Edmonton? This question was asked once before
11 in another case which you will recall.

12 A. I would think there was a minimum
13 reduction.

14 Q. Was there a reduction within a period of
15 a year?

16 A. If I have already been asked this
17 question I have undoubtedly answered it when I was
18 undoubtedly more familiar with the facts than I am
19 today and I am content to stand by my previous answer.

20 Q. Your previous answer was you could find
21 no result of the follow-up on consumer prices as a
22 result of the bridge subsidy in Alberta.

23 A. I will accept that again.

24 Q. Here is a shorter one so you do not have
25 to stretch your memory too far; the roll-back
26 legislation. There are two roll-back regulations
27 on class and commodity rates and one is for one
28 percent and one of an additional two per cent within
29 the last year and one half.

30 A. Yes, sir.



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3 Q. Has it affected the consumer prices on
4 durables and non-durables in Edmonton?

5 A. I have made no study on it.

6 Q. I asked Mr. Frawley for this some months
7 ago and he said he was referring it to his consultants
8 at the University of Alberta.

9 MR. FRAWLEY: I said I was referring it to
10 my staff in Alberta. I had in mind the people who are
11 employed by the province of Alberta, civil servants.

12 MR. SINCLAIR: Q. It was not referred to
13 you? You have made no study?

14 A. Mr. Frawley accuses me of being rather
15 bad at answering letters but I do not think I forgot
16 about this one because I do not think I saw it.

17 Q. No doubt it will come along. You have
18 no evidence of a reaction in the prices following this
19 roll-back?

20 A. No, sir, I have not.

21 Q. Now, Mr. Harries, I will turn to the
22 second submission of yours. You will agree with me
23 that the advance of the province of Alberta in the
24 last 30 years have been phenomenal.

25 A. Yes, in the last ten.

26 MR. FRAWLEY: I do not know why you go back
27 30 years.

28 MR. SINCLAIR: Q. My friend wants me to
29 tell him why we go back 30 years. I suggest to you
30 in 1920 the population of Alberta was the lowest of the



three provinces.

A. That is 40 years.

Q. 1925 census -- 1926 census.

A. I have not checked it but I am prepared to accept it.

Q. But today it has about 1,600,000 or about double? the June estimated census of population of Alberta is 1,606,000.

COMMISSIONER GOBEIL: The fourth biggest.

THE WITNESS: 1,600,000 I would like to accept it but my recollection is that it is about 1,200,000.

MR. SINCLAIR: I am looking at the commercial letter of the Canadian Bank of Commerce and it says as of June 1st this year Manitoba had 899,00, Saskatchewan was 910,000 and Alberta, 1,606,000.

COMMISSIONER GOBEIL: The fourth biggest in Canada.

MR. FRAWLEY: Get the Toronto Dominion letter and I will pay more attention to it.

MR. SINCLAIR: Q. You disagree with this?

A. That does not strike me as the right figure but I will be glad to accept it. It may be as high as that but the figure I have in mind is between 1.2 million and 1.3 million.

Q. However, Alberta being the smallest of the three prairie provinces has grown now to be not too far away from double the population of Manitoba



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3 and substantially in excess of the population of
4 Saskatchewan.

5 A. Yes, sir.

6 Q. And the credit standing of Alberta in
7 the last 20 to 25 years has certainly had a marked
8 change.

9 A. It has improved, yes, sir.

10 Q. It has improved?

11 A. Yes, sir.

12 Q. Well, I think Alberta Provincial bonds
13 rate among the highest of provincial bonds.

14 A. Yes, they had a good issue here six
15 months ago over the municipal finance corporation.

16 Q. Yes, they get a high credit rating.

17 A. Before the City of Edmonton.

18 Q. Before most of the provinces. It is
19 equal to the province of Ontario in credit rating?
20 Correct?

21 A. I have not checked it that close but it
22 is close enough to Ontario.

23 Q. So that we have in Alberta, as you say,
24 a marked advance, a more rapid growth and a general
25 economic buoyancy not equalled, not excelled in other
26 provinces of Canada.

27 A. It has been very satisfactory, I think
28 we will all recognize that and I think the railways
29 will too.

30 Q. It has been just excellent. Now, you



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3 in your brief after dealing with this general
4 economics situation of Alberta turn your mind to what
5 you consider a problem in Alberta and that is the
6 burden of transportation. Now, as an economist all
7 costs are burdens. That is the way you used the phrase?

8 A. Yes, I think it has a slightly different
9 meaning than the usual one given to the word.

10 Q. You just mean costs?

11 A. Yes.

12 Q. Now, before I move too far into this
13 Mr. Harries, I just want you to look at a table here
14 which I have seen before. I wondered if in your
15 preparation -- this is table 5, page 22, Mr. Frawley's
16 table.

17 MR. FRAWLEY: That is yours.

18 MR. SINCLAIR: Q. Did Mr. Frawley happen
19 to show you exhibit 93 in these proceedings when you
20 were preparing this or was it before you? Exhibit 93
21 looks somewhat like this on column 1 and looks like it
22 on column 2 but from there on there are marked changes
23 in it.

24 A. Not that I remember. I recall discussing
25 it, it must have been a year ago with Mr. Frawley this
26 particular table.

27 Q. This is Exhibit 93 in the proceedings
28 now in issue here. Somebody approached this in just a
29 little different way. You said yesterday all
30 international overhead and carrier related traffic



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3 didtake increases and while they do not get them at
4 the same time they did move on the transportation costs.

5 A. Oh, yes.

6 Q. So that quite properly if you want to
7 show the impact of cost over time this distorts it.
8 Correct? You would leave that out, correct?

9 A. Yes, but of course, on that basis you
10 could leave out the others and show some increases too.
11 In other words, I think you could leave out the
12 statutory rates.

13 Q. Of course, that is what
14 exhibit 93 did because it then said that if statutory
15 grain rates -- not in the way you suggest but if
16 statutory grain rates had borne their equitable pro-
17 portion of increased transportation costs that was in
18 issue over here, that also required an adjustment.

19 A. Oh, yes.

20 Q. And by making an adjustment on
21 statutory grain and on export import and related the
22 balance which looks to be distorted in this exhibit
23 comes into relative proper proportion. This you can
24 see by your eye.

25 A. Well, relatively proper proportion is
26 sort of a glittering generality.

27 MR. FRAWLEY: I do not know what you are
28 doing with international rates because the simple fact
29 is international rates do not take Canadian increases.
30 That is what this exhibit says, table 5.



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Harries, cr.ex.
(Sinclair)

16680

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3 MR. SINCLAIR: Your exhibit shows 32% odd
4 on all that.

5 A. Yes.

6 Q. If you make the adjustment for import-
7 export and overhead related that we have been dis-
8 cussing that percentage which is the balance changes
9 from 32 to 45.5. If you make the adjustment for grain
10 that residual that you talk about here being 32%, that
11 figure becomes 63%.

12 A. Well, Mr. Sinclair, as a general
13 proposition I am quite prepared to agree with you to
14 this extent that the larger the traffic area over which
15 you spread the increase the smaller the percentage
16 increase on each part of the traffic. That just
17 follows, and, of course, I have no quarrel with it.
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2 Q. Well, now, Mr. Harries, what you do
3 quarrel with, as I take it, and the reason you look
4 for a new approach to the freight rate structure in
5 its adjustment upwards -- general revenue cases, in
6 other words -- is because of what you term the impact
7 on this shrinking base that can be adjusted; that is
8 right?

9 A. That is precisely it.

10 Q. And say by broadening the base either
11 through horizontal increases or by looking properly,
12 as I would suggest, under export and import, then
13 the problem diminishes in size, or could disappear?

14 A. No, sir; for this reason: you are
15 talking here -- this table was not, as you appreciate,
16 made up for this purpose. It was made up by yourselves
17 to illustrate where the increases would come. You can
18 appreciate that as successive increases go on the
19 percentage change is going to be more dramatic as
20 a result of the initial figure that you start with.
21 This is only an illustration of what is happening, and
22 I thought without even being required to produce a
23 table it would be generally agreed that the volume
24 of traffic on which increases can be applied is with
25 each successive increase smaller than it was before;
26 that this is one of the real problems. If that is
27 not a real problem, maybe I have been misled into
28 understanding what the position is, because I think
29 it is without question the problem.

30 Q. Well, of course, the magnitude of the



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2 problem is what I was talking to you about a minute ago,
3 and I think we are in agreement as to how it should be
4 approached. That it is a problem is a matter for
5 discussion. The reason -- and I want to turn my mind
6 to that with your assistance, and for the assistance
7 of the Commission, to ask you if you would agree:
8 that the reason general revenue cases have had an
9 impact on the non-competitive commodity rated traffic
10 is this -- and I want to know if you agree: that for
11 many years low-rated, heavy loading, long haul commodi-
12 ties under the Canadian freight rate structure were
13 cross subsidized to a very substantial degree by high
14 rated traffic -- of high value: correct?

15 A. As a generality, certainly.

16 Q. And as competition, and particularly
17 truck competition and external market competition,
18 manifested itself in the Canadian economic scene, the
19 ability of these high rated high value commodities
20 to carry the load for the low rated long haul traffic
21 became less and less; correct?

22 A. That is right.

23 Q. The result inevitably is that low rated
24 long haul traffic has to carry a more even or a more
25 proportionate share of total transportation costs?

26 A. Low rated and long haul traffic?

27 Q. Yes.

28 A. Yes, sir.

29 Q. And this is very easily demonstrated,
30 I suggest to you, by looking at the average revenues



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2 per ton mile which you can take off from the various
3 classifications of traffic out of the Board's Waybill
4 Analysis?

5 A. That is correct.

6 Q. Competitive rated traffic in 1959
7 averaged 2.7 cents a ton mile -- subject to checking
8 the figure. Agreed charge traffic, 2.38 cents;
9 non-competitive commodity rated traffic, or what is
10 known as normal commodity rated traffic, was 1.99 cents
11 per ton in 1959?

12 A. Yes, sir.

13 Q. Average revenue per ton mile, of
14 Canadian Pacific, was about 1.5, and, exclusive of
15 statutory grain was about 1.8 and a further fraction.
16 This, I suggest to you, indicates that inevitably the
17 non-competitive commodity rated traffic is going to
18 have to go up greater than the traffic that is moving
19 under competitive and agreed charges because it is
20 not carrying its fair share of the total transportation
21 costs?

22 A. No, sir, I don't think that follows at
23 all. In other words, the non-competitive traffic and
24 low rated traffic is not carrying its fair share of the
25 cost so it has to go up while the competitive traffic
26 stays where it is, and on the information I have one
27 cannot properly draw that conclusion.

28 Q. What I am saying is that the ability of
29 the high rated commodity traffic to carry the burden
30 for low rated long haul traffic has shrunk considerably



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2 and could very well shrink considerably more as
3 external market and carrier competition within Canada
4 becomes more manifest. Inevitably, the cross
5 subsidization that was of such a benefit to low rated
6 traffic is not available to them, so, therefore, they
7 have to pick it up. You don't agree with that?

8 A. No, sir, I don't, for this reason: we
9 may well be past the point to which you refer, and we
10 may well be at the point where the low rated long
11 haul traffic is in fact subsidizing the competitive
12 high grade traffic. That is the whole proposition.

13 Q. Well, of course, just on the figures I
14 have given you there is no indication of that situation
15 existing at the present time?

16 A. Those figures, of course, don't tell you
17 very much because you can't use average ton mile figures
18 to indicate the proposition you are suggesting to me.
19 You have got to know the length of haul and many more
20 things before you can make a reasonable comparison.

21 Q. I agree ---

22 A. If I had to take your figures that the
23 competitive is 2.7, and agreed charge 2.38, and
24 normal 1.99, and without the grain the C.P.R. average
25 is 1.88, I would scratch my head and wonder what was
26 left out.

27 Q. Well, of course, the answer to that,
28 as you know, is that the mix is involved and also the
29 length of haul?

30 A. That is precisely my point. That is



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2 why I don't think these figures indicate anything unless
3 we know the mix and length of haul.

4 Q. Well, very well, I agree that you need
5 these other two factors, but I am saying on these
6 figures there is no indication of what you suggest?

7 A. I agree that on these figures there is
8 no evidence of what I suggest, and I would be amazed
9 if on these figures one could get evidence of any sig-
10 nificance.

11 Q. What evidence have you got that long
12 haul low rated commodity traffic is subsidizing com-
13 petitive rated traffic? What evidence?

14 A. I don't have any, sir, and for the
15 validity of my proposition I don't require it.

16 Q. Well, that may be what you think. I
17 think you need some proof. But, let me ask you this:
18 assuming, if you will, with me, then, that on the
19 average competitive rated traffic, that is, competitive
20 rates and agreed charge, are carrying on the average
21 more than their total costs, and that on the average
22 normal rated commodity traffic is carrying less than
23 its total cost -- in other words, that there is cross
24 subsidization in favour of normal commodity rated
25 traffic, with intensification of external market and
26 carrier competition, the relationship can very well
27 inevitably require an increase in the normal commodity
28 rated traffic; you would agree?

29 A. Oh, yes, sir, that is apparent -- on
30 your assumptions.



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2 Q. Now, Mr. Harries, if in point of fact
3 what is included in the group "non-competitive commodity
4 rated traffic" is in that group because of low rail
5 rates compared to alternative transportation costs,
6 what disability does the shipper suffer by the raising
7 of that lower than alternative transportation cost
8 traffic -- what disability does he suffer?

9 A. If the non-competitive commodity rates --

10 Q. . . . rated traffic is lower than the
11 alternative transportation costs, and the raising of
12 that upwards is still below the alternative trans-
13 portation costs, my question is, in that circumstance
14 what disability does the shipper suffer?

15 A. He suffers the disability of being in
16 a non-competitive area.

17 Q. He suffers from the disability of being
18 in a non-competitive area because rail rates are lower
19 than alternative transportation costs. That is a
20 favourable position, I suggest to you -- not a dis-
21 ability?

22 A. Oh, no, no. The rail rates -- take
23 some place where there is no road in.

24 Q. You try on the Canadian Pacific.

25 MR. FRAWLEY: In Northern Alberta.

26 MR. SINCLAIR: I am talking about the
27 Canadian Pacific, Mr. Frawley.

28 Q. I am waiting, Mr. Harries.

29 A. Well, you have got a big system. Give
30 me a minute.



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Q. Well, you have been over it.

3

A. I can find one of your stations in the interior of British Columbia.

5

Q. Yes, I will give it to you: Whoknock, and there are two Indians and a section gang living there. Tell me the next one.

8

A. I will accept your answer to find one.

9

Q. And also when you are doing it just tell me what industries or shippers are involved in the movements.

12

A. There is no question ---

13

14

Q. The point is, on the Canadian Pacific potential carrier competition is all-pervasive?

15

A. As a generality, again, that is correct.

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Q. That being the fact, I come back to my question to you before: tell this Commission what the disability is where the so-called non-competitive shipper is getting a rate below alternative transportation costs? Where is the disability?

21

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23

A. The disability exists in the fact that this competitive means of transport may not be well enough developed to be of effect; that is all.

24

25

26

Q. But as soon as rail rates on that traffic make it attractive for alternative transportation media, that transportation media will manifest itself?

27

A. Yes, that is correct.

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30

Q. So that I say to you that there isn't, in truth, such a thing as non-competitive traffic on the Canadian Pacific today?



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2 A. Oh, well, sir, if you take -- if you
3 broaden the limit sufficiently, that is a fair proposi-
4 tion and it probably has held for the last thirty years.

5 Q. I am saying that the development of roads
6 by provincial governments, of which Alberta is one of
7 the great leaders, and British Columbia another, and
8 Manitoba another, and to some degree Saskatchewan,
9 that these people have made it impossible for them, by
10 their road programmes, to maintain the position they
11 have espoused in these commissions for the last twenty
12 years; they have taken away their argument. Don't you
13 agree with that?

14 A. No, sir; if they had taken away their
15 argument you could not put a 17 per cent increase on
16 traffic in Canada and make it stick on anything, par-
17 ticularly in non-competitive commodity rated traffic.

18 Q. The reason why you can make it stick is
19 that you can make it stick -- "you" meaning the railways
20 -- the railways can make it stick where their rates are
21 below the alternative transportation media's cost?

22 A. That is right, and that was the case when
23 they had canoes on the St. Lawrence.

24 THE CHAIRMAN: Is there such a thing as
25 captive traffic?

26 THE WITNESS: I think, Mr. Chairman, that
27 there is captive traffic.

28 MR. SINCLAIR: Q. This is what we disagree about.

29 A. One has got to consider these things within a
30 range: for example, if we go back in history the rates



1
2 in western Canada were set on the basis of the winter
3 rates that applied in eastern Canada where there was
4 lake competition and so on. There was, in fact, in
5 the whole area competition at that time, and there was
6 competition out on the North Saskatchewan river to
7 Edmonton, and this competition would have been very
8 effective at a given level of rates, but within what
9 one must describe as reasonable limits this competition
10 does not now on the North Saskatchewan river have a
11 chance to evidence itself. All I am saying is, you
12 can always say there is potential competition, but you
13 have got to put the thing within limits.

14 COMMISSIONER GOBEIL: From your answer to Mr.
15 Sinclair, should we be inclined to think that on the
16 C.P.R. there is no competitive traffic?

17 THE WITNESS: No, sir, I would not wish you
18 to draw that conclusion because I am saying, given a
19 broad enough limit there is no competitive traffic,
20 certainly.

21 MR. SINCLAIR: Q. But, Mr. Harries, in
22 Alberta without rate control and without entry control,
23 and in British Columbia, Saskatchewan and Manitoba with
24 double tracking and triple tracking of carrier routes,
25 how can you say that there is in the Canadian Pacific
26 movements in these three provinces that are captive to
27 the railway except in the sense that the railway is
28 giving them such a transportation bargain that nobody
29 else can meet the competition?

30 A. This great bargain they are getting from



1
2 the Canadian Pacific Railway, sir, is a bargain only
3 having in mind the fact that the surface transportation
4 means in the area are existing but not well developed.

5 Q. Are you suggesting that truck trans-
6 portation is not well developed in Alberta?

7 A. In lots of places, yes.

8 Q. I am asking you, over the Canadian Pacific
9 line; I am talking about Canadian Pacific. They are
10 on this map in this court room all outlined in red for
11 you, and I suggest to you that over all the Canadian
12 Pacific lines in Alberta there is highly developed
13 truck transportation?

14 A. No, I don't think that is right.

15 Q. Well, tell me where it is not?

16 A. Well, you can pick lots of branch lines
17 where a highly developed truck transportation consists
18 of one three-ton unit with a box on the back of it
19 that delivers twice a week.

20 Q. You have forgotten about all the private
21 carriage operative in Alberta. Alberta has the
22 largest number of registrations of motor vehicles of
23 any province in Canada.

24 A. No, no.

25 Q. It has not?

26 A. The largest number of motor vehicle
27 registrations?

28 Q. Per capita.

29 A. Oh; well, yes.

30 Q. Well, after all ---



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2 A. Well, I can only answer one question at
3 a time.

4 Q. I said "per capita", and if I didn't
5 I am sorry.

6 A. You didn't. I didn't hear you say it.

7 Q. Well, I thought it, anyhow.

8 COMMISSIONER PLATT: Isn't this a question
9 of -- you are referring to the competitive nature,
10 and isn't it more meaningful to limit this to where the
11 traffic will move; that is, certainly I could carry a
12 sack of wheat to Vancouver on my back, and the value
13 of transportation really means the value here as com-
14 pared with the value there, and when you talk about
15 competition isn't it more meaningful to talk about
16 within the limits with which a commodity will move?

17 MR. SINCLAIR: Very well, I will put this
18 to him because my position is I established it in the
19 broad ground, and what you are suggesting is that I
20 bring it into the actual traffic movement.

21 MR. FRAWLEY: I thought Commissioner Platt
22 was addressing himself to the witness.

23 THE WITNESS: Well, may I make this comment:
24 I think you are helpful because that is the point I am
25 trying to get across, that if you open it wide up and
26 the ceiling is the limit, then certainly the railway
27 exists because it has the lowest rates and rates lower
28 than the competition, so no one is hurt, but that
29 has always existed in greater or lesser degree in
30 connection with transportation. In other words,



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2 there has never been only one means of transportation
3 across Canada, but for a long time the railways were
4 for all practical purposes the only means of trans-
5 portation.

6 MR. SINCLAIR: I would like to ask a number
7 of questions arising out of this.

8 THE CHAIRMAN: Well, we will take a break
9 now.

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11 ---Short recess.
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3 Q. Mr. Harries, on this proposition of the
4 economic range of alternative methods of transportation
5 which was raised by Commissioner Platt, see if you
6 agree with me in this proposition, that by virtue of
7 cross-subsidization from high rated to low-rated
8 commodities, the market range of low rated commodities
9 was extended?

10 A. Yes.

11 Q. In fact inevitably, as the policy of
12 high-rated to cross-subsidization low-rated lessens, the
13 margin, if it was dependent upon transportation,
14 must shrink?

15 A. That is right, and in the same way as
16 passenger deficits increase and if they are to be
17 covered by freight shippers --

18 Q. You make a note of passenger and I
19 will give you an opportunity to discuss that.

20 A. If I could finish what I was saying,
21 I would be glad to make a note of it. I was saying
22 to the extent that the passenger deficit must be made
23 up by the freight shippers, then the economic range of
24 the shipments for your freight items is lessened.

25 Q. Now, Mr. Harries, if all commodities
26 making more than 30% over total costs disappeared from
27 the railways, or if the railways were restricted to
28 earning on any commodity movement anything more than
29 30% or 40% over total costs, this would shrink the
30 margin of the low-rated commodities, I suggest to you?



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3 A. Well, that depends, sir, whether there are
4 any significant number of -- first of all, it depends on
5 the extent to which there are in fact commodities
6 returning more than 30% over total costs.

7 Q. I said if -- I assure you, Mr. Harries,
8 that on Canadian Pacific there are. Now --

9 A. All right, I will accept that assumption.

10 Q. All right. Now then, in so far as if there
11 is a restriction put on that basis, this must shrink the
12 margin because the money has to come from somewhere; doesn't
13 it?

14 A. That is right, sir.

15 Q. And this will shrink the margin?

16 A. That is right, sir. It would.

17 Q. And what is happening in transportation in
18 Canada, I suggest to you, is that the economic margin of
19 low-rated commodities, in so far as they were dependent
20 upon transportation because of the shift of cross-
21 subsidization policy, must necessarily shrink. Would
22 you agree with that?

23 A. I think there has been over the past 15
24 years, sir, a trend in that direction, certainly.

25 Q. And that, as external market competition
26 from manufactured high-rated goods, and as carrier
27 competition at rates above, we will say, two and three
28 cents a ton mile become more intensive, this situation
29 will continue to be a fact.

30 A. That is right, sir, but you must not



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3 overlook the tremendous growth that has taken place in
4 the market. In other words, it is a lot better to have
5 50% of 200 than 100% of 50.

6 THE CHAIRMAN: It is a bigger pie?

7 THE WITNESS: That is right, a much bigger pie,
8 and a sweeter pie.

9 MR. SINCLAIR: Q. Then, Mr. Harries, this turns
10 me to this question, and that is I suggest to you that
11 people who are not constantly working with the economics
12 of transportation and the interplay of external market
13 competition and internal carrier competition, particularly
14 trucks, assisted as they have been tremendously in the
15 post-war period by the road building programs in the
16 West, and in the East as well, do not realize that what
17 they are complaining about is inevitable -- it follows
18 as night follows day -- in economics.

19 A. Oh, I would not say that they are not aware
20 of the fact, and I would also question the emphasis on the
21 word "inevitable".

22 Q. The reason you say it is not inevitable --
23 your solution to make it not inevitable -- is it your
24 proposition of 140% over the rate? Is that how you are
25 going to stop it from carrying?

26 A. No, I do not think, with the greatest
27 respect, sir, that the proposition we are advancing
28 falls or stands on a basis of the cross-subsidization
29 proposition. What we are simply saying is that if in
30 fact the whole area of railway transportation is



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3 becoming more competitive that it is, in justice to those
4 large number or small number of things which are not
5 competitive; in justification to them, you have got to
6 still maintain some element of control on the maximum
7 rates, and that the present method of control, namely on
8 what we have described as a public utility basis is
9 ineffective, so we want to substitute another one, sir.

10 Q. You see, Mr. Harries, in answer to
11 Commissioner Mann yesterday you gave him a definition
12 of what you consider to be captive traffic?

13 A. Yes, sir.

14 Q. And under your definition you would have
15 included traffic from the East to the Maritimes as
16 captive, even though that traffic moves on arbitraries
17 over Montreal?

18 A. Yes, sir.

19 Q. And even though, Mr. Harries, the basis
20 of the rates and the whole history and their level now
21 rests upon water competition?

22 A. Yes, sir.

23 Q. And notwithstanding that the rates are
24 founded and continued on the basis of water
25 competition, you are going to call it non-competitive
26 and, therefore, put in a restriction on the railways'
27 present activities on that basis alone. Do you realize
28 that?

29 A. Certainly, sir. If they are competitive
30 rates, well, then, they would be marked as such, sir.



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3 Q. No, sir. That is the trouble with this
4 situation. I explained to you that these rates moved
5 on a question of arbitrary over Montreal, and they are
6 carried in the rates as commodity rates. Under your
7 definition, Mr. Harries, they came right into the
8 captive area.

9 A. They take percentage increases --
10 horizontal percentage increases.

11 Q. And just because a rate takes horizontal
12 percentage increases -- does that make it captive? Is
13 that how you are now defining it?

14 A. It is, I think, sir, fairly good evidence
15 that the competition is not controlling, when you are
16 arbitrarily and in spite of what is happening to the
17 competition put on a horizontal percentage increase.

18 Q. Mr. Harries, you gave a definition
19 yesterday that I am now testing. You have two rates
20 on traffic between Eastern Canada and the Maritimes.
21 Now, I have explained to you, and you have accepted it,
22 that the basis of these rates is water competition, and
23 yet it is in your definition captive. Now, do you now
24 want to take it out?

25 A. No, sir, because I am suggesting to you
26 that the competition is not controlling if those rates
27 can stand a horizontal percentage increase.

28 Q. Let me suggest to you that there are rates,
29 market competitive rates, which have been increased
30 percentage-wise more than the class rates even?



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3 A. Yes, there are a few of them, but it is
4 obvious that the number that do not take the increases
5 are far, far in excess of those ~~that~~ do, sir.

6 Q. Mr. Harries, in so far as the ones that
7 have taken the increases, you now say they should come out?

8 A. If they have taken the horizontal
9 percentage increases, as they have been applied over the
10 past years, certainly.

11 Q. Do you have to take them all?

12 A. I would think that one would have to
13 examine each one of them in order to answer that
14 question, sir.

15 Q. And so the way you are approaching this
16 is to take each and every individual rate and test it
17 in regard to what has happened to rate movement in the
18 post-war period; correct?

19 A. No, my answer, sir, was with respect to
20 the competitive rates that have taken increases, and
21 you said, "would they have to take them all", and I
22 suggested to you, sir, that one would have to look
23 at those competitive rates which have taken the increase
24 and see what the situation is with respect to them. That
25 is all.

26 Q. Mr. Harries, I suggest to you that what
27 you are indicating now is that the only way you can
28 approach your proposition is by looking at individual
29 traffic movement?

30 A. No, sir.



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3 Q. Well, you disagree, and yet you cannot
4 give this Commission a definition that will be applied
5 to determine which rates are going to be subject to your
6 maximum?

7 A. Well, all rates are subject to the maximum.

8 Q. All rates are subject to the maximum?

9 A. Yes, sir.

10 Q. Even the competitive rates?

11 A. Well, certainly the competitive rates are
12 subject to the maximum.

13 Q. Well, Mr. Harries, I certainly never
14 understood this. Let me just put this proposition to
15 you: I have a competitive rate which is 150% above
16 another competitive rate in another part of the
17 country; a similar commodity, similar distance; and are
18 you saying that I cannot charge 150% on that commodity?

19 A. Same product, yes, sir, I am. Yes, sir.

20 Q. What you are saying --

21 A. Let me say the reason for that. It would
22 then be perfectly easy for the railways in their
23 discretion to start starrng all kinds of rates
24 competitive and avoid the maximum provision.

25 Q. Mr. Harries, of course, the railways can
26 star things competitive, but under the Railway Act
27 they are required to prove things if anybody calls them
28 into question.

29 A. Yes, sir.

30 Q. And I think you have indicated on a number



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3 of occasions that generally speaking railway traffic
4 officers are not going around starrng things for the
5 fun of starrng them or trying to mislead people; they
6 can make mistakes --

7 A. I would hate to face them with a
8 proposition like that whereby, by starrng them they
9 can go above 140. That is not the proposition we are
10 advancing; it is there shall be no rate higher than 140%
11 of the same or similar rate in another part, or the same
12 part of the country.

13 Q. Let me give you an example, Mr. Harries,
14 of where there might be a water movement of the
15 Canadian National Railways on a specific commodity and
16 that is the only place that is handling that commodity
17 --

18 A. A water movement on the Canadian
19 National Railway?

20 Q. Yes, between two points on the Canadian
21 National Railway.

22 A. Yes, sir.

23 Q. And that is the only place where it is
24 handling that commodity, that it puts in a rate to meet
25 that water competition, and the Canadian Pacific handle
26 it in Western Canada where there is not water
27 competition. Under your proposal, by the Canadian
28 National taking rate action to meet competition on their
29 line, that would force the Canadian Pacific to reduce
30 their rates to 40% over; is that correct?



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3 A. No, it would give them the opportunity
4 to earn that rate plus 40%, which we think is
5 adequate.

6 Q. You would require the Canadian Pacific
7 to reduce its rates to a maximum of 40% over the water
8 competitive controlled rate of the Canadian National;
9 correct?

10 A. Yes, sir. Yes, sir.

11 Q. Now, I understand that part of your
12 proposition -- Let me put this to you: there is a
13 movement in one part of the country for 200 miles,
14 competitive rate; there is a movement in another part
15 of the country, competitive rate -- the rate on the
16 first movement being "X" and the rate on the other
17 movement, same commodity, 300 miles, the rate "XY".
18 There is a movement in the third part of the country
19 on the same commodity, and the level is "XYZ". I ~~have~~
20 had given you rates "X", "XY", "XYZ". The mileage is
21 200, 300 and 500 miles.

22 Under your proposition, tell me the maximum
23 rate for a movement of the same commodity for 400 miles,
24 each of these rates I have given you reflecting
25 different intensities of competition, and not having
26 any smooth progression?

27 A. Well, as I have suggested to you, that
28 in respect to rate comparisons where the same mileages
29 are not involved, it would be necessary to make out a
30 scale giving the normal rates of progression and then



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3 relate each of these rates you have given to that
4 particular scale. In other words, your scale
5 points would be "XXY", and "XYZ".

6 Q. Yes.

7 A. And you read off from the scale the rates
8 at 400 and 600 and add 40% to that, and if your rates
9 for 400 miles and 600 miles were in excess of 140% of
10 the scale points, then they would be reduced.

11 Q. But what are you using as the basis of
12 the scale? Are you using the progression under the
13 equalized class rates scale?

14 A. No, you are using the competitive rates
15 that you have established.

16 Q. No, but I have not a smooth progression,
17 so you are going to have to take a progression.

18 Would you take the progression that the board
19 has accepted in the equalized class rates scale as the
20 basis of the progression?

21 A. One could either take that, sir, or they
22 could take a progression based upon cost figures.

23 Q. Progression based upon cost?

24 A. Yes, sir.

25 Q. It would vary with every commodity.

26 A. Oh, no. I would rather doubt that they
27 would vary with every commodity.

28 Q. Well, they would vary with groups of
29 commodities.

30 A. That may be, sir.



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3 Q. You would suggest that this would result
4 as you said to Mr. Chairman this morning, in a simpler
5 tariff structure and a simpler freight rate structure
6 than we have today?

7 A. Well, certainly.

8 Q. Well, have you ever drawn tariffs?

9 A. Well, I did my best as a witness for the
10 province of Alberta to assist the board when they drew
11 the equalized class rate scales.

12 Q. And how did you get along, Mr. Harries?

13 A. I thought we did very well, sir.

14 Q. You were satisfied with the scale?

15 A. Yes.

16 Q. They did not accept your evidence, did
17 they?

18 A. They accepted part of mine and part of
19 quite a few other people's, sir.

20 Q. If you are satisfied that they accepted
21 only part of yours, that's the way I will leave it.
22 Thank you very much.

23 I want to ask you one thing further, Mr.
24 Harries, with respect to this. Under your proposal,
25 how would the railways put in spot competitive rates
26 for three days to meet gypsy or back-haul truck
27 competition?

28 A. Spot or competitive rates for three days?

29 Q. Well, they put in a spot competitive rate
30 to meet gypsy or back-haul truck competition in



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3 Alberta from Edmonton to Calgary?

4 A. You mean like those ginger ale rates?

5 Q. Like ginger bread or ginger ale or
6 anything else; just the fact that the railways put in
7 a spot rate to meet gypsy or back-haul truck
8 competition, and they put them in for three days.

9 A. They would be able to continue to do that,
10 sir.

11 Q. And that would then form the basis of
12 the rates that would be applicable throughout Canada?

13 A. No, sir, I think that if you are going
14 to have a rate in for three days you could almost call
15 it an anti-development rate and put it in the same
16 category as the development rates we are talking about.

17 Q. So we may be clear, you may remember that
18 the company I am acting for here are not proponents
19 of development rates. We do not agree with that
20 situation. We fight the proposition of development
21 rates.

22 A. Well, I think you should in that same
23 same basis fight these three day rates to meet the
24 gypsies.

25 Q. Well, we put them in, Mr. Harries. You
26 say they will be an exception to your proposition; that
27 would be an expiry rate you would except?

28 A. I would think they could be in that same
29 category.

30 Q. All right. Then, I am going to put them



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3 in for two months. Now, will you accept them if they
4 are put in for two months? Would they be an exception
5 to your proposition?

6 A. I have suggested to you, sir, that
7 subsequent to the question of Commissioner Mann
8 yesterday I have done some thinking about it, and I
9 think there must be a category of rates, developmental
10 or expiry rates, which could properly be excluded from
11 this 140% provision, in as much as they constitute a
12 floor.
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2 Now, the extent to which they would be per-
3 mitted would be, I think, limited by -- they should be
4 severely limited. Now, whether they should apply for
5 three days and then two months or four months I don't
6 know, but I think it is something that should be worked
7 out and I would not want to prejudice our scheme by
8 saying "If it is two months, yes", because the next
9 question will be "If it is three months?" I do
10 not know.

11 Q. This is a problem that would have to
12 be resolved under your scheme?

13 A. Very definitely.

14 Q. And there would be differences of views
15 between shippers and railways?

16 A. Yes.

17 Q. And immediately there would be people
18 saying this is not the proper way to come within it
19 and this would bring about dispute?

20 A. I do not think I am optimistic enough
21 to suggest that under any scheme of maximum rate
22 regulation we are going to escape the disagreements
23 that have always characterized railway rate making in
24 Canada.

25 Q. You said in fixing the percentage for
26 the maximum rate you would take into account railway
27 revenue requirements and the relationship of constant
28 to variable costs, those two factors?

29 A. Yes, sir.

30 Q. Over the railway revenue requirements,



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2 correct?

3 A. Yes, sir.

4 Q. Now, you went on to say that you recognize
5 that this maximum rate fixing would have to stay in
6 for a reasonably lengthy period -- five years you sug-
7 gested?

8 A. Yes, sir.

9 Q. In fixing this maxima which is going to
10 stay for five years would you tell the Commission how
11 you could estimate the railway wage level three years
12 in advance? Now, I have picked three years from
13 today.

14 A. I think I can answer your question this
15 way: I am not suggesting that this percentage should be
16 fixed with reference to the future railway revenue
17 requirements. That is not the purpose, in fact its
18 purpose is precisely to the contrary. ,I am suggesting
19 that the railway revenue requirements that ought to be
20 considered are those that were established in the last
21 revenue case here by the Board and from that day on
22 the railways should be left to their own devices to
23 meet their wage requirements and complexities. In
24 other words, the railways-- this is not a scheme
25 which says "We will give the C.P.R. the opportunity
26 to earn X numbers of dollars in this year, and if they
27 do not earn it they can come back to the Board and we
28 will change the formula." That is not it at all.
29 It gives you the freedom to earn \$14 million or \$28
30 million or \$100 million or \$1 million. It is left



1
2 entirely up to you, it is your problem after that and
3 the only thing that is of significance with respect
4 to general revenue requirements is the base from which
5 you start so that you can calculate a percentage, be
6 it 40 or 35 or 45, that seems reasonable. That is
7 all.

8 Q. But yesterday you said it is going to
9 do away with general requirement cases?

10 A. That is right.

11 Q. And you are now saying that it will be
12 based on the last requirements but those last requirements
13 and rate returns reflect a number of factors, for
14 instance, income tax. Now, within the postwar
15 period Canadian Pacific, within a period of five years,
16 has seen a change of as much as 10 per cent in income
17 tax.

18 A. So has every other business in Canada.

19 Q. Just a minute. Every business in Canada
20 is not working under a maxima price ceiling?

21 A. Neither is Canadian Pacific with this
22 arrangement excepting for that small part of the
23 traffic which would be subject to the maxima rate
24 regulation.

25 Q. I showed you Exhibit 93 where there
26 is one calculation that became over two-thirds or about
27 two-thirds of the total traffic so what you are doing
28 is putting an absolute-freeze on two-thirds of the
29 traffic?

30 A. Oh, no.



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2 Q. And Mr. McDonald, you will recall, showed
3 you some other figures, revenue figures that showed about
4 55 per cent?

5 A. No, those are not all -- it would be
6 made subject to the maximum but by no stretch of the
7 imagination can one conclude the maximum is going to
8 operate on all these rates; by no manner of means.
9 If I can draw a rather extended conclusion from the
10 ton mile figures that you gave me for 1959, these show
11 that the normal is below and consequently in order to
12 be effective it would have to be 40 per cent about the
13 199.

14 Q. That is showing the absolute level of ---

15 A. Yes.

16 Q. What you are then suggesting is you will
17 give the railway a year's hunting licence without any
18 complaint from anybody to raise their low rated com-
19 modities by 40 per cent?

20 A. To the extent that a commodity is now
21 below 140 per cent of the lowest competitive rate that
22 is in existence then, they can raise it 40 per cent.
23 I assume the railways will exercise their usual good
24 judgment having in mind the volume of traffic that the
25 increased rate will move, having in mind the equipment
26 they have to handle the traffic and all other traffic
27 considerations. I am not saying it is a hunting
28 licence to increase all the low rates by 40 per cent or
29 that they will do that. They certainly could do that
30 theoretically, but this would not be in their own



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2 business interest and that is the thing you are going
3 to be most concerned about if this scheme was employed.

4 Q. Of course, what is in a person's business
5 interest is a matter of subjective judgment to some
6 degree?

7 A. Oh, in some degree, certainly.

8 Q. Now, one other thing about your plan
9 that I am not clear on: what you are saying is that
10 notwithstanding increases in costs within the five-
11 year period over which railways have no control, such
12 as income tax, wage increases, you would not allow the
13 railways to come back and ask for a change in the
14 maximum?

15 A. No, the maximum would be what we in
16 Alberta in dealing with gas reserves call a rolling
17 maximum. In other words, the maximum would change
18 in response to these particular factors because
19 presumably the lower rates are going to change in
20 response to them. If, for instance, there is a general
21 inflation of 20 per cent and this is going to be
22 reflected in your lower rates which would in turn permit
23 you to change your highest rates, I would suspect that
24 with this system it would be a good deal more flexible
25 than the present system.

26 One thing, if I was looking at it from the
27 standpoint of the railways I would suggest that you
28 would not be put to the expense that you encounter
29 now in delays with respect to general revenue hearings.

30 COMMISSIONER GOBEIL: Where does the five-



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2 year business come in?

3 MR. SINCLAIR: When did it come in? It
4 was raised by Mr. Frawley's witness.

5 COMMISSIONER GOBEL: Five years' freezing
6 or whatever it is.

7 MR. SINCLAIR: That was the answer given by
8 the witness yesterday, that the maximum once fixed
9 would not be changed for a reasonably lengthy period
10 and he suggested five years.

11 MR. CUMMING: It was in answer to a question
12 of mine.

13 THE WITNESS: That is correct, for the reason
14 that if you are going to have a system like this work
15 you cannot have this system along with a general revenue
16 public utility type of control.

17 COMMISSIONER MANN: But under your concept of
18 the rolling maximum you do not need five years, do you?

19 THE WITNESS: No, I do not think you have to
20 state a maximum or minimum period except it is
21 conceivable that at the end of five years there may be
22 pressure to review the operation of this system. What
23 I was suggesting was it would be wrong to review the
24 statement before a period of five years because there
25 is undoubtedly going to be some rather drastic re-
26 ductions or readjustments initially until the thing
27 gets working.

28 COMMISSIONER MANN: You do not suggest
29 a quinquennial review of this system?

30 THE WITNESS: No, I do not think so. I think



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it will work the way I have suggested.

MR. SINCLAIR: Q. Have you a built-in
inflationary term in the maximum?

A. Yes, sir.

Q. What do you use as the index?

A. You do not ---

Q. If I might explain what I am trying to
say to you. In regard to the base rates which will
reflect inflationary phases in regard to the maximums
that are set without reference to that, where is your
built-in factor? For instance, I will give you an
example to see that you follow me. The railways
have a rate level that is 30 per cent above variable
movement and you would allow them, however we determine
it, a non-competitive movement an additional 10 per
cent?

A. Yes, sir.

Q. Now, because of the intensity of com-
petition which comes into being at the same time as
inflation being reflected in the increased taxes,
increased wage rates coming into being, the competitive
rate which has the prices falling 10 per cent, then
how do you build into your maximum any kind of factor
that will enable the railways to increase it to take
care of that increased intensity of high inflationary
factors?

A. Well, the competitive rate which is 30
per cent over variable is not the base rate.

Q. That is the only one in effect for this



1
2 movement, that is the example I gave you. There are
3 lots of examples like this, all kinds of competitive
4 rates are substantially more and the only one in
5 existence is 30 per cent over variable. Numbers
6 of them have been filed with this Commission.

7 A. I am sure there are lots of rates. I
8 am suggesting to you, however, there would be com-
9 petitive rates down at the variable plus one level
10 and these in response to inflationary trends, as the
11 case may be, would be increased because if they are
12 not they would be non-compensatory.

13 Q. But the ones not in that position, how
14 would those which you call rolling maximums reflect
15 inflation? It could not be done.

16 A. Not if you have a competitive rate
17 that is earning 30 per cent above variable.

18 Q. And then it falls to 20?

19 A. Yes.

20 Q. Well, let me ask you this: if we have
21 a competitive rate that is 200 per cent variable?

22 A. Yes, sir.

23 Q. And we have what would come within the
24 captive field, a commodity rate that is 150 per cent,
25 what happens? Does this enable us to take the
26 commodity rate and make the commodity 240 per cent
27 instead of 150 per cent that is now operating?

28 A. If the commodity ---

29 Q. Where you have a commodity rate?

30 A. You have a competitive rate on a



1
2 particular product for a particular mileage and it is
3 earning 200 per cent of variable?

4 Q. Yes.

5 A. And you have a commodity rate?

6 Q. In another area.

7 A. The same commodity?

8 Q. Yes.

9 A. The same mileage?

10 Q. Yes.

11 A. And it is earning 50 per cent?

12 Q. No, 150 per cent.

13 A. One hundred and fifty on variable, then
14 on this system for this competitive rate that was
15 earning 200 per cent on variable from your base rate
16 you would be able to increase the commodity rate.

17 Q. By 90 per cent?

18 A. That is right.

19 COMMISSIONER GOBEIL: You should not be
20 reducing your commodity rate by 10 per cent to make
21 it the lowest.

22 THE WITNESS: I would think you would have
23 a great deal of difficulty in getting an example like
24 this on a competitive rate earning 200 per cent and a
25 normal commodity of 150. However, going on with the
26 assumption I would say it would go up 90.

27 MR. SINCLAIR: Q. You are saying whether
28 it is a commodity or competitive rate or whatever
29 kind of rate it is you pick the lowest and work 40 per
30 cent over that?



1
2 A. I think that would be better.

3 Q. And the result of that would mean that
4 the railways would be forced by your proposition to
5 put in rates lower than necessary to meet the competition?
6 Correct?

7 A. On this particular example, yes, although
8 I would certainly like to see some of these.

9 Q. On the hypothesis I put to you you
10 agreed with me that it would be better to take the
11 lowest rate, commodity, class, competitive, agreed
12 charge, or whatever it was, and the maximum would be
13 40 per cent over that. I say in this kind of case
14 you would find that the maximum rate on competitive
15 movement would be lower than necessary to meet com-
16 petition.

17 A. On your hypothesis, certainly. I
18 could not understand why you wanted me to change my
19 answer but now I can see.

20 COMMISSIONER GOBEIL: Could you foresee
21 cases like that?

22 MR. SINCLAIR: I will try to bring some to
23 the attention of the Commission, yes. If there are
24 specific ones I will bring them to the attention of
25 the Commission.

26 THE WITNESS: If I might say so without
27 being accused of making a speech of any kind, a
28 general regulation such as we are proposing, without
29 question you are going to find examples for it won't
30 work here and it won't work there. I might say that



1
2 Mr. Sinclair is the fellow that can find some isolated
3 examples but the thing we are trying to do is look
4 at the overall picture and not be too concerned with
5 what are only isolated instances.

6 Q. Of course, I have an answer to that
7 at the appropriate time but I do not think that is
8 now. I had hoped to finish by three-thirty and I
9 must apologize for not doing so. I have enjoyed
10 reading this part of the Alberta submission and
11 discussing it with you.



1
2 MR. FRAWLEY: Mr. Chairman, I certainly
3 do not want to take up any time, but the question of
4 the five years was raised, and perhaps I had better
5 refer to the transcript. It is yesterday's transcript,
6 October 11th, at page 16577 where Mr. Harries had said:

7 "I think it would be perfectly proper to
8 take the last determination by the
9 Board of Transport Commissioners and
10 say, 'Now, on the basis of this what
11 would be a reasonable percentage to use'
12 and then proceed from that point.

13 "Commissioner Mann: That would be
14 a one-time determination because after
15 that you would no longer need that.

16 "A. I would be very loath to
17 change it without giving it a long time
18 to work, say five years or something like
19 that."

20 MR. SINCLAIR: I did promise Mr.
21 Harries I would talk to him about passenger, but in
22 view of the time I hope he will forgive me for not
23 asking him questions about that.

24 THE WITNESS: I am disappointed, sir, but
25 I think I can get over that.

26 CROSS-EXAMINATION BY MR. BRAZIER:

27 Q. Mr. Harries, as a result of Mr. Sinclair's
28 cross-examination, as you can imagine, some of the
29 questions that I had in mind for you have already been
30



1
2 answered. Putting just a general proposition to you
3 first, I presume that you agree with the general proposi-
4 tion that the railways should be permitted to meet
5 competition wherever the need?

6 A. As a general proposition, yes, sir.

7 Q. And that would be carrier competition?

8 A. Yes, sir.

9 Q. Water competition?

10 A. Yes, sir.

11 Q. And maybe in a slightly different cate-
12 gory, market competition, and might I break that down
13 into two parts that have already been mentioned; market
14 competition arising from competition outside of Canada
15 in the first place -- what do you say about that?
16 Should they be permitted to allow the Canadian manu-
17 facturers to meet that competition?

18 A. Well, with some safeguards, yes, sir.

19 Q. And as far as market competition
20 between two Canadians is concerned, what is your stand
21 on that?

22 A. I think they should be permitted to meet
23 that.

24 Q. They should be permitted to meet that?

25 A. Yes, sir.

26 Q. So that, let me take an instance of that:
27 Alberta sells some lumber down in Ontario?

28 A. That is correct.

29 Q. And you compete there with lumber pro-
30 duced in Ontario?



1
2 A. Yes, sir, and with lumber produced
3 in British Columbia.

4 Q. Let us just take the one that is close
5 at hand which is the rate that is going to affect you
6 most in that case; do you think it would be in order
7 for the railways to issue a rate on lumber for the
8 Northern Alberta producers equal to the rate from
9 Northern Ontario into the Toronto market?

10 A. Well, I would not say equal to, but,
11 as you well know, I hoped you were going to say in
12 competition in the Toronto market with British Columbia
13 because the Alberta rates are geared to those rates in
14 the Toronto market, and they are geared to the British
15 Columbia rates in the Chicago and New York areas.

16 Q. And British Columbia and Alberta are
17 relatively in the same geographical centre as far as
18 Toronto, Chicago and New York are concerned?

19 A. Oh, yes, but think of the advantages
20 that B.C. lumber has with respect to boat shipments which
21 Alberta interior mills do not have. I think it is a
22 sensible thing to permit the Alberta lumber producers
23 to meet the competition from the British Columbia and
24 from the American Pacific northwest and from southern
25 mills in the Chicago-New York area, and that is
26 exactly what they do, and it would be very unfortunate
27 for the lumber producers in Alberta if they were not
28 permitted to do that.

29 Q. I am wondering how far you wish to go
30 in giving the power to the railways to decide as between



1
2 two manufacturers in Canada, that they should give
3 one manufacturer an advantage ratewise in order to
4 permit him to compete with another manufacturer or
5 producer in another part of Canada?

6 A. They don't set the rates so the manu-
7 facturer can compete. They set the rates so they
8 can get their business for themselves, and I think that
9 is a pretty good basis on which to have the rates
10 established. That is, it is not a matter of the
11 railways through their beneficence permitting one
12 manufacturer to compete and another not to compete.
13 It is purely on the matter of, "Is this a good haul
14 for us? Has it got some desirable revenue character-
15 istics? If it has, and we want the business, how
16 do we get it?" I don't think we should put it on
17 the basis of some economic policy, because I don't
18 think that enters into it.

19 Q. What you have just been outlining,
20 and I suggest to you it would not be a question of
21 market competition?

22 A. Yes, it could.

23 Q. It could be?

24 A. Well, just for example, I am sure that
25 when the railways ---

26 Q. Maybe it is a definition of terms: you
27 and I are not using the terms in the same way. I am
28 using them as one producer or manufacturer being able
29 to compete in the market with another?

30 A. That is the way I am using it.



1
2 Q. And the railways giving him a rate for
3 that purpose?

4 A. Yes, sir.

5 Q. You are speaking of rates given by the
6 railways to increase the railways' business?

7 A. That is the same thing, sir. I was
8 going to say, let us go back to the lumber example:
9 the railways gave the Northern Alberta producers of
10 lumber the coast basis on rates, essentially.

11 Q. Did they?

12 A. Essentially.

13 Q. In the interior?

14 A. Well, all right, yes.

15 Q. Prince George?

16 A. The interior rates, to enable them to
17 get into the market, and they didn't do that on the
18 basis that they said, "We are going to have these
19 Alberta people in a position to compete with the
20 interior people". They did it on the basis that
21 there was traffic in the interior of Alberta they
22 wanted to move and they could give them rates which
23 would move the traffic and at a profit to themselves,
24 and, as I understand market competition, that is the
25 basis upon which the rates are established now, and I
26 think it is a perfectly proper basis.

27 Q. That is your understanding of why the
28 Northern Alberta lumber people were given the interior
29 B.C. lumber rates?

30 A. So they could compete in the markets,



1
2 yes, sir.

3 Q. Mr. Harries, you have had considerable
4 experience over a number of years in rate cases, and
5 you have had occasion, I think, many times to interview
6 people in Alberta who were complaining about the freight
7 rate situation and listened to their stories, and you
8 have appeared as a witness before the Board and before
9 Royal Commissions on their behalf; is that correct?

10 A. Yes, sir, I have had some experience.

11 Q. Has it been your experience that in any
12 area of Canada you have some people who want the rates
13 to be increased as much as possible and others who
14 want them kept down?

15 A. There are always people who think their
16 industry will be helped by a protective freight rate
17 barrier, yes, sir.

18 Q. And it is a considerable body in most
19 areas, isn't it -- particularly in western Canada?

20 A. I don't know that in Alberta it is a
21 considerable body. It is something that comes up at
22 Chamber of Commerce discussions and it has never re-
23 ceived very much support in Alberta.

24 Q. It has not?

25 A. No, sir, not that I am aware of.

26 Q. But there is some?

27 A. Oh, there is some, certainly.

28 Q. I want to go to your table No. 1 on
29 page 7 of your first brief, and as I understand it there
30 was a corrected table put in?



1
2 A. There was, sir.

3 Q. And I believe in the first place it has
4 been called to your attention that there are four items
5 on here all of which do come within the One and One-
6 Third Rule if the One and One-Third Rule were applied
7 to agreed charges?

8 MR. FRAWLEY: You mean it would not offend
9 the One and One-Third Rule?

10 MR. BRAZIER: Yes, that is right.

11 THE WITNESS: It has not been pointed out
12 before, but I am prepared to accept that.

13 MR. BRAZIER: Q. I am suggesting, brass,
14 bronze and copper articles: that one would not offend
15 against the One and One-Third Rule?

16 A. That is correct.

17 Q. Cheese?

18 A. Yes, sir.

19 Q. Glass, window, common?

20 A. Yes, sir.

21 Q. And paint and paint materials?

22 A. Yes, sir.

23 Q. Is that right?

24 A. Yes, sir.

25 Q. I want to just go for a minute to the
26 one here on wire rope and strand which is a rate from
27 eastern Canada to Vancouver at \$1.40 and to Calgary
28 \$2.85, and to Edmonton \$2.95. Are you aware of any
29 factories manufacturing wire rope in Vancouver?

30 A. I think there is one.



1
2 Q. Well, for your information, there are
3 actually two plants in Vancouver.

4 A. Yes.

5 Q. And the next nearest plant is Toronto?

6 A. Isn't there -- maybe it is just a wire
7 plant, but I thought there was an outfit at Weyburn,
8 Saskatchewan.

9 Q. I don't think so.

10 A. That is maybe just wire.

11 Q. Yes, whereas this is wire rope.

12 A. Yes.

13 Q. Were you aware of the fact that the
14 manufacturers in Vancouver complained about the
15 establishment of this particular agreed charge?

16 A. No, I wasn't.

17 Q. I advise you there were proceedings before
18 the Board of Transport Commissioners where Vancouver
19 manufacturers strenuously opposed the establishment
20 of that particular agreed charge. You were not
21 aware of that?

22 A. No. Was that to meet import competition
23 -- the agreed charge?

24 Q. This was to give the import and the
25 local manufacturer in Vancouver ---

26 A. Just so that I understand it, part of
27 the reason for the agreed charge into Vancouver was
28 market competition against the Vancouver plants?

29 Q. And also by carrier competition.

30 A. Yes.



1
2 Q. Probably no market competition. Pro-
3 bably just carrier competition.

4 A. I am not familiar with that.

5 Q. You were not aware of that?

6 A. No, sir.

7 Q. I am just going to suggest to you that
8 was a very definite instance where a local manufacturer
9 opposed lower rates rather than being pleased to see
10 them.

11 A. I would accept it, sir.

12 Q. Do you know where the wire rope that is
13 used in Alberta comes from?

14 A. Yes, I do, sir.

15 Q. Where?

16 A. Well, there are three firms in Edmonton
17 and three in Calgary. They bring in their supplies
18 of wire rope by truck with the exception of one firm
19 that brings in approximately one car a month from
20 Smiths Falls, Ontario. A large amount of the wire
21 rope in Alberta is being supplied from Vancouver
22 because there are two companies there which both get
23 their supplies from their own plants.

24 Q. In Vancouver?

25 A. Yes.

26 Q. You say a great deal of that comes in
27 by truck?

28 A. Yes, sir.

29 Q. Are you aware there is also an agreed
30 charge on wire rope from Vancouver to points in



1
2 Alberta, Saskatchewan and Manitoba?

3 A. I can check it, sir. I will accept
4 it, if there is.

5 Q. Agreed charge 486?

6 A. Yes, sir.

7 Q. And the lowest rate, which I presume
8 would be the Calgary rate, is \$1.30?

9 A. Yes, sir.

10 Q. If you have a rate of \$1.30 on your wire
11 rope this rate of \$2.85 really doesn't affect you in
12 any way, does it -- and if, in fact, you bring most
13 of your wire rope from British Columbia?

14 A. Well, no, sir, the combined rate would
15 be \$2.70 in that case instead of the \$2.85.

16 Q. There is no combined rate. This is
17 an agreed charge from the factory in Vancouver?

18 A. Oh, yes.

19 Q. To Calgary?

20 A. Yes, but I am pretty certain that the
21 factory in Vancouver has an f.o.b. price which takes
22 into account the \$1.40 rate from eastern Canada.

23 Q. Have you any information on that?

24 A. No, sir.

25 Q. This is just supposition?

26 A. It is just a supposition. I will be
27 glad to check and see what the prices are.

28 Q. Are there any of the distributors of
29 these items covered by these commodities complaining
30 at the present time about the rate structure?



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A. I have no information on that, sir.
I didn't attempt to visit them at all.

Q. On the last Royal Commission, as you pointed out in your brief, there was quite a number of distributors who appeared before the Commission to complain about the situation?

A. Yes, sir.

Q. And as far as I know there has been no such distributor before this Commission?

A. Not that I am aware of.

MR. BRAZIER: Is my memory correct there, Mr. Frawley?

MR. FRAWLEY: From Alberta?

MR. BRAZIER: Yes.

MR. FRAWLEY: I haven't seen any.

---Adjournment.

Hon. G. P. McTavish

ROYAL COMMISSION

ON

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HEARINGS

HELD AT

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- Page 16745, line 9: Delete "Coates"
 Substitute "Copes"
- line 17: Delete "qualifying"
 Substitute "quantifying"
- 16746 line 21 Delete "on"
 Substitute "of"
- 16749 line 10: Delete "a" and "of"
- 16750 line 6: Delete "that"
- 16752 line 17: Delete "inhibitive"
 Substitute "inhibited"



ROYAL COMMISSION ON TRANSPORTATION

Proceedings of hearings held
in the Court Room, Board of
Transport Commissioners
Offices, Ottawa, Ontario, on
the 13th day of October, 1960.

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Ottawa, Ontario,
Thursday,
October 13, 1960.

--- On commencing at 10:00 a.m.

MR. SINCLAIR: Mr. Chairman, before Mr. Brazier continues his cross-examination of Mr. Harries I wondered if the Commission would consider and see whether they could assist myself and some of my confreres by adjourning until 3:30 this afternoon and sitting an hour later. There is a matter which we wish to consider carefully that will be going on at noon today, and we do not think we can finish our consideration of it comfortably by 2:30. If the Commission would give consideration to that we would appreciate it.

THE CHAIRMAN: I think we can be reasonable.

MR. SINCLAIR: Thank you, sir.

MR. FRAWLEY: Of course, my difficulty is that the next witness after Dr. Harries cannot stay here after Friday evening; he has to go back, even if I have to bring him back next week, and he lives in Spokane.

THE CHAIRMAN: Well, we can work after 4:00.

MR. FRAWLEY: Thank you very much.

THE CHAIRMAN: Mr. Brazier?

HU HARRIES, recalled

CROSS-EXAMINATION BY MR. BRAZIER (resumed): Q. Dr. Harries, we were talking last night about some of the items on your Table No. 1?



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A. Yes, sir.

Q. Just one other there that I wanted to ask you about, the one on cheese.

A. Yes, sir.

Q. \$3.00 to Vancouver; \$3.32 to Calgary. Now, that is the one that complies with the One and One-Third Rule as far as competitive rates; isn't it?

A. Yes, sir.

Q. Alberta produces a great deal of cheese, does it not?

A. Yes, sir.

Q. And you sell a great deal of it in British Columbia, I presume?

A. I would not be certain, sir, but I would be prepared to accept your suggestion that we do.

Q. Do you have an agreed charge on cheese from Alberta to British Columbia?

A. I will check that, sir.

MR. FRAWLEY: Do you know the number, Mr. Brazier, or the date of it?

MR. BRAZIER: I am afraid I have not.

THE WITNESS: If well, if there is one, sir -- if you are suggesting to me, sir, that there is one I will accept your suggestion.

MR. BRAZIER: I do not know. I was asking information from you.

THE WITNESS: Well, I would have to check through exhibit 149, sir.



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3 MR. FRAWLEY: There was one on butter for a long
4 time. I do not know whether it is still in force.

5 MR. BRAZIER: Q. The butter agreed charge is
6 one of the older agreed charges; is it not?

7 A. There is one on canned milk, sir.

8 Q. Probably you can check it later, Mr.
9 Harries. You do not know of it off hand, anyway?

10 A. No, sir, I do not.

11 Q. Well, last evening you agreed with the
12 proposition that the railways should be permitted to meet
13 competition by publishing competitive rates where there is
14 competition to be met?

15 A. Yes, sir.

16 Q. Do you also agree with the proposition that
17 such rates should be compensatory?

18 A. Yes, sir.

19 Q. And are there any other qualifications that
20 you think should be applied to those competitive rates?

21 A. Well, the qualifications, sir, I think, are
22 laid out in section 334.

23 Q. I am speaking generally of competitive rates.

24 A. Well, so am I, sir. I think those are.

25 Q. As long as they comply with the provisions
26 of section 334 you think the railways should have the
27 right to publish competitive rates?

28 A. Yes, sir, I do.

29 Q. Now, in your opinion what is the difference
30 between a competitive rate published between Montreal and



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3 Vancouver and a competitive rate that is published
4 between Calgary and Edmonton, assuming that there is
5 competition in both instances?

6 A. Well, the major difference, of course, is
7 that in the first instance, that is the Toronto or
8 Montreal to Vancouver rates, there may be long and short
9 haul discrimination of a very large amount created as
10 between two competitive rate situations, sir, and with
11 respect to the competition only there is probably no
12 difference.

13 Q. No difference?

14 A. No, sir.

15 Q. Do you then subscribe to the proposition
16 that there should be different statutory rules in respect
17 to those two competitive rates?

18 A. I certainly do, sir. I suggest that there
19 should be a statutory prohibition against an excess amount
20 of long and short haul discrimination in respect to
21 transcontinental rates or agreed charges.

22 Q. Now, Mr. Harries, I thought it was
23 essentially your proposition to this Commission that the
24 railways should be given all possible freedom in fixing
25 rates subject to a statutory maximum on rates?

26 A. That is correct, sir, and the One and One-
27 Third Rule is in effect a statutory maximum.

28 As a matter of fact, sir, if I may make this
29 observation, the general proposal that we have advanced --
30 more properly, I have advanced -- at this hearing is a



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3 proposal that is, if not a blood brother at least a first
4 cousin to the One and One-Third. That is where the idea
5 comes from, sir.

6 Q. Now, in your second brief, starting at the
7 bottom of page 43 and over on page 44 and 45, you give
8 some examples of competitive rates from other parts of
9 Canada. You give the ginger ale competitive rate, Edmonton
10 to Calgary, 23¢ a hundred, whereas the competitive rate
11 from Winnipeg to Dryden, approximately the same distance,
12 is 49¢ a hundred?

13 A. Yes, sir.

14 Q. More than twice?

15 A. Yes, sir.

16 Q. Do you suggest that there should be a
17 statutory provision in controlling those rates?

18 A. Very definitely, sir.

19 Q. Now, let me put it to you this way. If the
20 Act is not changed and the method of making rates remains
21 as it is today, would you suggest there should be some
22 special provision put in the Railway Act to provide that
23 that rate from Winnipeg to Dryden should not exceed by
24 one and one-third or by 40% the rate from Calgary to
25 Edmonton?

26 A. Well, it seems to me, sir, that if you put
27 such a provision in you would change the rate making
28 procedures that are now pursued.

29 Q. It would be a modification of it?

30 A. Well, a change or a modification, or an



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3 alteration, or an amendment.

4 Q. It would not be a completely new method
5 of making rates?

6 A. A new method?

7 Q. Yes.

8 A. Oh, no, sir. I do not think our brief
9 suggests that we employ a new method. If you wish to
10 describe it in that way, many of the same considerations
11 as applied today, sir, would apply under the systems
12 that we are proposing. Indeed, it probably would sharpen
13 some of the present procedures.

14 The only thing that we are advocating, sir, is
15 that there be a maximum rate set on movements of a non-
16 competitive nature, and that maximum would look for its
17 criterion of reasonableness at the competitive rates
18 freely put in by the railway.

19 THE CHAIRMAN: You maintain your scheme is
20 flexible?

21 THE WITNESS: Yes, sir, we think that is one
22 of its major advantages.

23 MR. BRAZIER: Q. At the present time, without
24 any modification to the Railway Act, taking it as it
25 stands today, you do not see anything wrong with the 23¢
26 competitive rate in one part of the country as against a
27 49¢ competitive rate in another part of the country?

28 A. Oh, yes, I do.

29 Q. You do?

30 A. That is why we are making this suggestion



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3 for a change, sir.

4 Q. Would you suggest that the competitive rate
5 between Edmonton and Calgary be increased?

6 A. Yes, sir. If the railways can increase it,
7 that is exactly what should happen to it.

8 Q. If they can?

9 A. If they can, yes, sir.

10 Q. But would you require them to do it, even
11 if they lose the business?

12 A. No, sir, I would not suggest any such
13 requirement.

14 Q. You would agree that if they are making
15 something over and above their out of pocket expense on
16 that 23¢ rate, it is to our advantage to have them carrying
17 that traffic?

18 A. That is correct, sir, but we say that if
19 they are making some contribution to overhead on that 23¢
20 rate, then the 49¢ rate is just too high, that's
21 all. It is making too much of a contribution.

22 Q. Now, in your Table 1, Mr. Harries, I
23 suggest to you that in the comparisons in some cases there
24 are agreed charges with substantial minimum requirements,
25 as against class rates; is that correct?

26 A. Excuse me, sir, are we back on the first
27 brief?

28 Q. Yes, Table 1. I have in mind what I think
29 is probably the most striking case: copper articles,
30 \$1.85 rate to Vancouver. The minimum there is 120,000



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3 pounds. Is that correct?

4 A. Just one moment, sir, if I may check
5 exhibit 81-A.

6 Excuse me, sir, your reference was to copper
7 articles?

8 Q. That is right.

9 A. Rate of \$1.85; minimum weight of 120,000
10 pounds.

11 Q. Yes.

12 A. Yes, sir?

13 Q. Now, the comparative rate which you have
14 there is a class rate, class 45, to Calgary, \$4.11?

15 A. Yes, sir.

16 Q. And the minimum there is 26,000 pounds?

17 A. Yes, sir.

18 Q. Now, can you tell me whether the
19 distributor or the consignee of those articles in Calgary
20 have ever requested a rate with a higher minimum from
21 the railways?

22 A. I cannot of my own knowledge, sir, say yes
23 or no to your question. I just do not know.

24 Q. You do not know?

25 A. No, sir.

26 Q. You have no information?

27 A. I have not, sir. I think I can safely say
28 this, sir, that he should be given every opportunity to
29 participate in a rate of \$1.85, and if he was he would,
30 of course, be expected to take the same minimum car.



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3 Q. But you do not know whether he has even
4 requested that or not?

5 A. No, sir, I do not.

6 Q. And certainly that shipper has not come
7 before this Commission to complain about the situation?

8 A. Not to my knowledge, sir.

9 Q. Now, I am advised, Mr. Harries, that
10 within the last year or so one of the large tire
11 manufacturing companies wanted to establish a plant in
12 Western Canada. Do you know anything about that?

13 A. Two of them, sir -- Goodyear and Firestone
14 -- and we hope that Dunlop is going to be out there, too.

15 Q. Where did they decide to establish?

16 A. Firestone is at Calgary, and Goodyear is
17 at Medicine Hat, sir.

18 Q. Those are industries that bring in a lot
19 of their raw materials to those areas?

20 A. Yes, sir, they bring in raw rubber.

21 Q. Are you aware that they investigated the
22 establishment in British Columbia and, I imagine, in
23 Saskatchewan and Manitoba?

24 A. I do know that they investigated British
25 Columbia, and maybe even Manitoba.

26 Q. And, on the whole, certainly the rate
27 discrimination did not affect their decision to
28 establish in Alberta; did it?

29 A. Well, certainly to the extent that they
30 are there, sir, the answer would be no it did not.



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3 Q. And they are the particular type of
4 industry similar to what you have described in your
5 brief -- an industry which hesitates to come into an
6 area where there is long and short haul discrimination,
7 because of the raw materials that they have to bring in?

8 A. It is not quite that simple, sir, with the
9 tire manufacturing. You see, there is a very distinct
10 possibility that very large quantities of butane and
11 isobutane, which will be available in the natural gas
12 liquid stream, that the manufacture of butadiene can be
13 undertaken in Alberta, and it has been discussed over a
14 period of the last three years. So that I am certain,
15 in looking at a location, one of the things that they
16 did consider was the ultimate availability of raw
17 materials to use instead of those which they may now
18 import.

19 Q. Some of which they may import?

20 A. I would suggest that it is a very
21 substantial part of their requirement.
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2 Q. The fact remains there are other more
3 important considerations than long and short haul con-
4 siderations affecting companies who are establishing a
5 plant?

6 A. There are other factors most certainly
7 and in total they are all important. For instance,
8 if I might just suggest to you the reason Goodyear went
9 to Medicine Hat instead of Edmonton is they could get
10 cooling water from an underground stream at Medicine
11 Hat that saved them many thousands of dollars on plant
12 investment as compared to a location in Edmonton. Now
13 there is another company going into Medicine Hat and
14 one of the reasons is that it can take this cooling
15 water that is heated up by the Goodyear plant and use
16 it as process water. It is always difficult to
17 weigh the significance of particular factors, I freely
18 admit.

19 Q. I certainly agree with you. Now, Mr. Harries, I have a slight quotation here from a publica-
20 tion called "Alberta Industries and Resources," which
21 was published by the Alberta Government in 1959. Are
22 you aware of that?

23 A. Did you say "slight" or "short"?

24 Q. A short one. Are you familiar with
25 that publication by the government?

26 A. Generally, yes.

27 Q. On page 190 you find this statement:
28 "Since the geographical centre of popu-
29 lation of western Canada is located in
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2 Alberta this province has become the focal
3 point of the location of manufacturing
4 and distribution facilities to serve the
5 western area."

6 Do you agree with that generally?

7 A. No, I think that the distribution activi-
8 ties, if one is going to find a focal point, must still
9 be regarded as primarily located in Winnipeg.

10 Q. There is another publication called
11 "Alberta, Province of Opportunity," which is published
12 by the Calgary Power Company?

13 A. That is the one quoted in our brief.

14 Q. Page 222?

15 A. Yes, sir.

16 Q. "The rate of growth of sales in
17 Alberta has exceeded that of all other
18 Canadian provinces. From 1946 to 1956
19 the average yearly increase was some six
20 per cent compared to three and a half
21 per cent for the whole of Canada."

22 Do you agree?

23 MR. FRAWLEY: You are aware of what did all
24 that. You are not saying the Canadian freight rates
25 structure did that?

26 MR. SINCLAIR: They helped.

27 MR. FRAWLEY: They helped to hold it back.

28 MR. BRAZIER: The freight rates structure
29 was ---

30 MR. FRAWLEY: I have a feeling the discovery



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2 of oil had something to do with it.

3 MR. SINCLAIR: It was one of the factors.

4 MR. BRAZIER: Q. That general development,
5 I suggest to you, indicates that the freight rates
6 structure of Alberta was no real detriment to the
7 development of that province?

8 A. I could not accept that at all.

9 Q. You would not?

10 A. No, for this reason: one always has to
11 examine the increase in economic activity in terms of
12 its potential rather than in terms of some historical
13 pattern and it would be inconceivable to me that the
14 kind of resource development that has gone on in
15 Alberta in the petroleum industry in the last few years
16 -- there were not any significant developments -- but to
17 suggest that because there were these developments and
18 sales have increased by six per cent a year that this
19 meant everything is beautiful and the freight rates
20 structure has not discriminated against Alberta is to
21 draw a conclusion on the basis of wrong evidence.

22 Q. I am suggesting to you that those findings
23 indicate the Province of Alberta, the development of
24 the Province of Alberta, has not suffered as against the
25 rest of Canada during that period?

26 A. I think that is a conclusion which cannot
27 be drawn from the evidence.

28 Q. The value of wholesale sales in Alberta
29 has increased substantially over that period of time?

30 A. It certainly has, sir.



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2 Q. I have some figures here which indicate
3 that in 1941 it was \$120 million and in 1951, \$392
4 million.

5 COMMISSIONER MANN: Are these constant
6 dollars?

7 MR. BRAZIER: No. In 1956, the last figure
8 I have, is \$795 million.

9 THE WITNESS: I would accept those figures.

10 MR. FRAWLEY: The British Columbia figures
11 are pretty good too.

12 MR. SINCLAIR: The freight rates structure
13 has helped them too.

14 MR. FRAWLEY: It certainly has.

15 MR. BRAZIER: Q. Wholesale sales have been
16 increasing well in keeping with the rest of Canada?

17 A. Oh, yes, sir.

18 MR. BRAZIER: Thank you very much.

19 THE CHAIRMAN: Mr. Mauro?

20 MR. MAURO: I have no questions.

21 THE CHAIRMAN: Mr. Frawley, do you want the
22 Commission to question first?

23 MR. FRAWLEY: Oh, yes.

24 BY COMMISSIONER GOBEIL:

25 Q. Dr. Harries, on your brief on long and
26 short haul on page 11 you mention this, that one of the
27 main beneficiaries of the removal of discrimination is
28 the transportation industry itself?

29 A. Yes, sir.
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2 Q. How would the transportation industry
3 be one of the main beneficiaries of the removal of that
4 discrimination?

5 A. I would certainly be pleased to comment
6 on it but I think the witness who follows me has
7 studied the situation in the mountain area of the
8 United States and would be better able to answer your
9 question because he has seen the actual results and
10 studied them. The reason I make the statement, based
11 upon his study of what I consider to be the impact on
12 the intermediate area and the removal of the discrimina-
13 tion by virtue of building up that intermediate area,
14 where the non-competitive nature of the traffic means
15 that the railways get a substantial portion of the total
16 traffic, whereas if they build it up on the coast they
17 are still getting severe competition from alternative
18 methods.

19 Q. Now, in connection with your statement
20 on page 18, you say that as a result of the One and One-
21 third Rule Alberta business which no longer suffered
22 the detriment of this discrimination enlarged its
23 distributing and manufacturing activities. Would you
24 have some concrete or specific example of that?

25 A. I do not have them with me but at the time
26 we appeared before the Royal Commission on Agreed
27 Charges we did offer some evidence from distributors
28 and manufacturers and I would be pleased to go through
29 the record and make extracts of that and send it to the
30 Commission.



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2 Q. You have some cases where it is demon-
3 strated that as a result of that One and One-third Rule
4 the Alberta businesses have increased their activities?

5 A. Yes, sir, that is my recollection of it
6 and I am sure I will find those for you.

7 COMMISSIONER GOBEIL: Thank you very much.

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9 BY COMMISSIONER MANN:

10 Q. I have a few questions which are entirely
11 on your second volume entitled "Transportation and the
12 Economy of Alberta". Would you be good enough to
13 look at page 11 of that volume?

14 A. Yes, sir.

15 Q. You are talking about the impact of
16 freight rates on the pricing of consumer durables and
17 I draw to your attention this sentence:

18 "The important area as far as the con-
19 sumer is concerned is in the field of
20 consumer durables such as appliances,
21 automobiles, and furniture."

22 And you say in the following sentence:

23 ". . . as a general proposition it
24 is accurate to say that the price of
25 these goods in Alberta is higher than
26 it is in other parts of Canada because
27 of transportation costs."

28 Now, the same thought is expressed in a somewhat
29 different form on page 13 in the first full paragraph
30 there where you are a little less general in your



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2 statement and you say that these goods, referring again
3 to consumer durables particularly are significantly
4 greater for the Alberta consumer than they are for most
5 other areas of Canada. In the one case you are at
6 the apex and in the other one there seem to be several
7 mountain peaks. There is a slight contradiction there
8 and I was interested in it because when we were in New-
9 foundland we had given to us a study made by Dr. Coates
10 which purported to show that the cost of living, due
11 to the impact of the freight rate structure on food
12 items and consumer durables was the highest in Canada.

13 A. I think that is right, sir. I do not
14 believe -- without doing a study on it -- I do not
15 believe our costs would be higher than Newfoundland as
16 a consequence of transportation.

17 Q. Can you think of any way of qualifying
18 these statements? I am appealing to you as an economist
19 of long standing.

20 A. It is awfully difficult because we get
21 in wage negotiations in Alberta where you are trying to
22 compare original wage levels and original cost of
23 living and I would rely upon the Bureau of Statistics
24 as the best possible source of any information along this
25 line. We certainly have not got any that would be of
26 value to the Commission.

27 Q. You know it is a little difficult to
28 work from Dominion Bureau of Statistics figures because
29 the cost of living is based on a different base for
30 each city?



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2 A. That is right. On the published
3 material, of course, you cannot make intercity or inter-
4 regional comparisons but it would seem to me that if it
5 is possible to make some inter-regional comparisons
6 then the DBS are the people who would have the data
7 you could do it from. I think they are virtually the
8 only source.

9 Q. On page 19 you are talking about the
10 role of the distributor in Alberta and you are suggesting
11 that the distributor market activity is becoming pro-
12 gressively less dependent on railway transportation
13 policy. I think the same thought is expressed on the
14 next page, and I will read the sentence I have in mind:

15 "The distributor will still require
16 equitable relative rates but these are
17 more likely to come as a consequence of
18 competition and not as a product of the
19 regulative process as such."

20 Well, now, is that true on the inbound traffic from
21 eastern Canada or are you thinking principally on the
22 outbound traffic from the distributors' premises?

23 A. No, sir, I was thinking of inbound traffic
24 too. There is, without question, many more alter-
25 natives open to the distributor importer of goods in
26 Alberta today than there were ten years ago and about
27 the only thing he really cannot beat today, as I see
28 it, are these low agreed charges to the coast. The
29 rest of it is pretty well in hand because we have some
30 very good trucking arrangements, we have good air



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2 service, and I am thinking more of the tools and hard-
3 ware, that kind of thing that is subject to distribu-
4 tor relations.

5 Q. Do you think in the long run -- let us
6 define the long run as ten years -- the competitive
7 process can be relied on rather than the regulatory
8 process to make life somewhat easier for the Alberta
9 distributor?

10 A. Oh, yes, sir, no question about it.
11 I think there will always be places where he may be in
12 a relatively unfavourable bargaining position or,
13 more correctly, in a position where he cannot bargain,
14 but those are not going to be too significant. I
15 think it is not unfair to say that in quite a number
16 of areas they are not too significant today, those
17 areas where he cannot bargain.

18 Q. On page 24 you use the term "mixed
19 control", and in that sentence you say:

20 "In today's circumstances of mixed
21 control, both within particular trans-
22 portation agencies and between agencies,
23 the primary producer is falling heir to
24 an unfair burden."

25 I wonder if you would be good enough to elaborate a
26 little on this term "mixed control"?

27 A. Well, what I had in mind with respect
28 to the railways was, take an agreed charge, which is
29 probably the least restricted of the methods of rate
30 making that the railway has, and you work to the



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2 competitive rate where the Board may, under 334,
3 require the railways to do certain things. Then you
4 move to commodity rates which are the subject of partial
5 equalization and you move into the class rate which
6 still must be approved by the Board, and so forth, and
7 so on. That is within the railway industry. Then,
8 there is a very great variety of controls quite different
9 in the degree to which particular rates are controlled.
10 Then when you come to what I call between agencies you
11 have the Saskatchewan situation where there is rate
12 control, Ontario where there is route control and
13 Alberta where there is no control. That is what I
14 had in mind.

15 Q. Any system, even the system that you have
16 in mind, would to some degree be a system of mixed
17 control, would it not?

18 A. Yes, sir, to the extent that the provinces,
19 of course, would enter into legislation, I presume, to
20 be free to do what they wish with truck traffic.

21 Q. I should think there is a difference,
22 dealing with the intra-agency situation, the railways,
23 for instance, even under your system you would have
24 mixed control because you are relying on the com-
25 petitive process with regard to anything but your
26 maximum rates are a little more tightly controlled
27 in the rate structure. Would that be mixed control
28 in the sense you have defined?

29 A. No, sir, I do not think it would be
30 mixed control. I think there would be only one



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2 control and that is the maximum rate control. In
3 other words, it would be as if today you could not make
4 a distinction between agreed charges, competitive
5 rates and commodity rates, we would adjust this by
6 looking at the standard rate or the top rate.

7 Q. That brings me quite naturally to the
8 next point on page 38 where you say there would only
9 be the maximum control, but I suggest to you that you
10 also envisage a minimum rate of control inasmuch as
11 you are not abandoning the concept that rates must be
12 compensatory?

13 A. No, that is correct, sir. I said that,
14 I believe because it would be unreasonable to leave the
15 question of minimum rates entirely to the carriers,
16 but as just a sort of extra protection to the shipper
17 it might be necessary to have some form of minimum
18 rate control.

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3 Q. I was going to ask you about that. If you
4 take the view that it is not in the interests of the
5 carriers to set rates below their variable costs, why
6 would you need the minimum rate control other than that
7 to protect competitive transportation agencies from what
8 might be called predatory practices?

9 A. I do not think you would need it, sir --
10 that you would need minimum rate control. The only
11 reason I am suggesting it may ~~be desirable to put it~~
12 in is because it will give the shippers an opportunity,
13 if they wish it, to have the railway, unchallenged as it
14 were, ~~set~~ the minimum rate level. In other words, it is
15 not because I think it is necessary in order to get a
16 good rate structure. I think minimum rate control may be
17 necessary in order to sell the shippers on the idea that
18 the railways are, in fact, looking after their business
19 in a way calculated to bring the best results for the
20 shippers.

21 Q. Under your system why would the shipper
22 have to worry. If the railway, for instance, sets a
23 rate that is non-compensatory, in the sense that is
24 usually defined now, if the railways set such a rate,
25 under your scheme the maximum rate for that particular
26 movement anywhere in Canada cannot be higher than 40%
27 above that non-compensatory rate. So, where does the
28 interest of the shipper come in?

29 A. Well, it might come in, for example, in
30 connection with the aluminum industry and the iron and



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3 steel industry or, say, the steel fabricating industry.
4 There might be a fairly low level of rates throughout
5 the steel industry and a fairly high level of rates
6 throughout the aluminum industry -- and this is purely
7 hypothetical -- and the aluminum people may feel that
8 the railways were down below a proper point in connection
9 with fabricated steel and hence the steel people were
10 getting an unfair advantage, say, in sales of window
11 frames, and they might wish to challenge the low
12 competitive rate that the railways have as a non-
13 compensatory rate.

14 If there was no control of the minimums, or
15 no provision for a review, they could, I think, feel that
16 an injustice was being done and that there was no means
17 by which it could be tested or remedied. That is the only
18 reason I see for minimum rate control.

19 I am quite content to leave the railways to
20 set the lowest rates, and if they want to set them below
21 cost, well and good, as long as they cannot come back on
22 the other shippers and say, "Now, we need \$2 million".

23 Q. Under your system there would be no way of
24 coming back on the other shippers under a general
25 revenue case?

26 A. No, sir.

27 Q. You gave us a very interesting exposition
28 of the situation with regard to highway transportation
29 in Alberta, and certainly it is my understanding that
30 you believe that the system as it exists in Alberta



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3 today is a desirable one?

4 A. That is correct.

5 Q. On page 40 you say that highway transport
6 would fit into the suggested scheme of railway rate
7 regulation in exactly the same way as it fits into the
8 Alberta transportation situation today. Would it
9 therefore be your recommendation, as a matter of
10 principle now, that there should be no rate control,
11 no route control, and no control of entry with regard to
12 either intra-provincial or inter-provincial trucking
13 anywhere in Canada?

14 A. Yes, sir, that would be my thought.

15 Q. Would it follow from that, to the extent
16 that such controls exist today, your scheme would be
17 inhibitive?

18 A. Yes, sir, there would be an inhibition as
19 a consequence of the kind of thing you have in
20 Saskatchewan, but I am not too sure that as we gain
21 experience with the Alberta situation, to be specific,
22 that we will not gradually be able to convince
23 Saskatchewan that that is the proper way to do it.

24 Q. Yes.

25 A. But I do feel fairly confident that in
26 the alternative Saskatchewan is not going to be able to
27 convince Alberta, which may be as the result of a
28 number of factors.

29 Q. Without going into these factors or
30 anyone of them, I just have one more note here, and that



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3 relates generally to your attitude on competition and
4 the efficacy of competition. In answer to Mr.
5 McDonald yesterday you said -- and I have the transcript
6 reference here: it is volume 98, page 16630. You say:

7 "Rates in Canada would be, as they
8 are today, nation wide -- handled
9 on a national basis through the
10 railways or through C.F.A. as the
11 case may be."

12 Certainly, as is apparent from what you have
13 told us, you believe very strongly in the efficacy of
14 competition in transportation. Would it not be desirable
15 to suggest that the railways themselves compete among
16 each other in terms of rates to bring out cost advantages
17 that one has over the other? If competition -- and I
18 do not want to make this too long a question -- if
19 competition is such a good means of bringing about
20 optimum resource allocation, then doesn't it follow that
21 the competitive principle should be applied to railway
22 rates as between the railways themselves?

23 A. I must confess that I had not given that
24 proposition too much thought. My immediate reaction is
25 that where you have a government line and a private line,
26 essentially, that the dangers of competition between the
27 two of them might more than offset any advantages that
28 could accrue, and the advantages, it seems to me, might
29 be rather modest because of the fact that they as a unit
30 working through C.F.A., for example, will have, I think,



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3 a tendency to rationalize their services as between the
4 two railways to a greater extent than would be the case
5 if they were openly competing with one another.

6 For example, I still hope we can look forward
7 to the day when duplications of services between the two
8 railways are removed, and if there was to be competition
9 between the two railways this would have a tendency, I
10 think, to at least preserve these duplicate facilities
11 in a way that would not happen if they were given the
12 opportunity to abandon service and rationalize as
13 between themselves certain common services.

14 I prefaced my remarks by stating that I have
15 not given this anything but passing consideration, and
16 the remarks I have made are as a consequence only of
17 that passing consideration. It is an interesting
18 thought and one that might well be developed.

19 Q. Do you have any principles that you can
20 tell us that should underly the elimination of
21 duplicate services?

22 A. No, sir, I rather question whether there
23 are any what one might describe as "principles" that
24 could be of assistance there. It seems to me that what
25 is required is the application of a little hard
26 headedness on the part of the two railways. For example,
27 transcontinental passenger service: it has certainly
28 delighted me to see that they are going to cut down or
29 take out, for the winter at least, the second train on
30 both lines. I think that is commendable. If it had



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3 happened five years ago it would have been that much
4 better. This kind of thing is very slow in coming, and
5 looking at the results of the C.N.R.-C.P.R. Cooperation
6 Act one cannot be too enthusiastic about the possibilities
7 of legislation in that regard having a material effect
8 on it. However, I think if the railways have the
9 opportunity to earn more money or earn less as a
10 consequence of their own managerial activities, unimpeded
11 by the kind of regulation with respect to earnings that
12 we have today, that this might be the most powerful
13 incentive to them to do away with certain duplications,
14 except I think it must be left up to their own interests,
15 and that is maybe the way to do it.

16 Q. That brings me to a question that follows
17 from what you have said: is not the other side of
18 the coin of rate control or rate system you propose --
19 is not the other side of that coin the freedom and
20 ability of the railways to shed unprofitable segments
21 of their plant more freely or indeed completely freely?
22 Is that inherent in your proposal? Is that a natural
23 consequence of your proposal?

24 A. Yes, that question was raised briefly
25 the day before yesterday. Certainly, that is my view,
26 that they must be permitted to drop services or
27 discontinue lines or trains as they see fit. In other
28 words, what I am saying is that they should be free
29 to compete with the trucks and consequently you cannot
30 have them half-free half-slave kind of thing. They have



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3 got to be able to exercise their best judgment with
4 respect to services and lines.

5 This, as I suggested the other day, does not
6 necessarily mean that there would be no attempt made in
7 the case of abandonments, for example, to work the thing
8 out so that the people who are dependent on that
9 service -- so that they would not be given an
10 opportunity to readjust their business arrangements.
11 It cannot happen overnight, sir, but it must happen, and
12 the railways must be given freedom to do that.

13 Q. You think, then, that the interests of
14 people on marginal lines up for abandonment should be
15 safeguarded to some extent and there should be some
16 gradual disinvestment?

17 A. Yes, sir, but the mere fact that there are
18 people dependant upon the railway service, and if the
19 railways show or feel this line is not making money,
20 then that should not be a reason for stopping the
21 abandonment. In other words, you have got to proceed
22 with these things and if there is someone going to be
23 hurt it may well be that there could be compensation
24 paid to those who are hurt.

25 Q. On the basis of national or public
26 interest?

27 A. Yes, sir.

28 Q. Well, that raises the final question I
29 have, Dr. Harries. We have heard quite a bit about
30 this: you have mentioned that transportation has been



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3 an instrument of -- and Mr. Sinclair has done a
4 refinement of this and has distinguished it -- I do not
5 know the semantics of this -- as an instrument of or for
6 the public interest. In your submission, particularly
7 on page 36 of the second volume which we are discussing,
8 you say quite definitely and quite strongly that
9 transportation has ceased to be a special case in
10 Canada?

11 A. Yes, sir.

12 Q. If there had been any reason for
13 transportation being a special case that reason is no
14 longer valid today. Do you say, then, that transportation
15 -- let us put it differently. Do you say that railways
16 have ceased to be a instrument of national policy?

17 A. Yes, sir.

18 Q. Do you want to widen that and say that
19 transportation -- and that takes in all media of
20 transportation -- should not be regarded as instruments
21 of national policy -- and I am staying away from the
22 infant industry argument.

23 A. That is what I was worrying about.

24 Q. I thought you were.

25 A. With the airlines, and so on. Yes, sir,
26 I think they are no more an instrument of national
27 policy than is the steel industry, for example.

28 Q. To the extent the steel industry is
29 protected by tariffs, is there a national interest in
30 that industry?



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3 A. Oh yes, there is a national interest in
4 everyone of our major industries: in forestry and
5 mining and agriculture, of course, and in transportation
6 as an industry. But, I think one must -- I am trying
7 to distinguish in my own mind between an instrument of
8 national policy and something that is of concern to the
9 nation as a national industry. I think you must
10 distinguish. As I understand the term "instrument of
11 national policy" -- of or for national policy -- that
12 means that there were certain things done with respect
13 to transportation that were only done because of the
14 necessity to advance a certain national policy through
15 these carriers as an instrument. That is the way I
16 would describe the thing. I do not think that is the
17 case anymore today.

18 Q. If that is no longer the case, should the
19 government assume a completely neutral role with regard
20 to its promotion of transportation industries, with
21 regard to its expenditures on transportation facilities?

22 A. I am not sure I understand what you mean
23 by "neutral role with respect to its expenditures".

24 Q. Let me clarify it a little. Up to
25 relatively recently we had a toll free canal system in
26 Canada?

27 A. Yes, sir.

28 Q. We still have some toll free canals left.
29 The seaway has made a difference in that traditional
30 policy of the federal government. We now have user



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3 charges on the seaway and the Welland Canal?

4 A. Yes.

5 Q. Do you think that that is a wise policy
6 to follow -- this would be a neutral policy by the
7 government: to construct a facility, you recover its
8 cost from the users of that facility?

9 A. Yes, I think that the most efficient
10 use of your resources comes from a situation where you
11 can put a price tag on the thing and those people who
12 use it pay for it, because if they do not pay for it --
13 if you carry it in the general revenue accounts and so
14 on -- you never know how much these things are costing
15 you, and the result is that -- the only thing that makes
16 economic advance possible is the encouragement that you
17 get from cost-reducing or product-increasing innovations,
18 and if you are not paying for these things you can go on
19 in the same old way for years and years and years and
20 there is no incentive to change. If there is a user
21 cost attached to a facility, then the people are
22 conscious of what this thing cost. I am not saying
23 the government should not in its wisdom turn around
24 and give some of that money back by way of subsidy for
25 reasons completely aside from economics; that is fine.
26 But, let us make the subsidy specific: in other words,
27 if there is an abandonment and there is a cost to a
28 particular person on that abandoned line, there is no
29 reason in the world why the government should not give
30 him a subsidy to tide him over the capital loss he has

rsd



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3 taken, but let us not disguise the thing so that you
4 do not know what this is costing you.

5 Q. For instance, you can give a subsidy by
6 way of tax concession: would that be better than a
7 subsidy that is funnelled into the transportation price
8 structure?

9 A. A specific subsidy, for example, on this
10 tax reduction thing: I would like to see the money paid
11 out after the taxes have been paid, as it were. In
12 other words, let us make it explicit so there are
13 "X" millions or "X" thousands of dollars going here. We
14 may take it back in taxes or some such thing, but at
15 least let us know where the money is going.

16 Q. Do you think it is better on the whole to
17 tamper with the tax structure than it is to tamper with
18 the transportation pricing structure?

19 A. Yes, sir, but I think it is better still
20 not to tamper with either of them, and make a direct
21 exchange. I may be bringing a small mind to a large
22 problem, but when you have two little companies and one
23 company owes the other one a thousand dollars, and the
24 second company owes the first one \$500.00, the one way
25 to get really into trouble is to start off-setting it
26 on your books. The best way is to take a cheque and
27 say to the other company, "here is your thousand
28 dollars; thank you very much", and the other one says,
29 "here is your five hundred dollars", and that is not a
30 bad kind of principle to apply in national accounting.



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3 Let us have it on the books so we can see that this much
4 was paid for this, and we get this much back. But to
5 try and offset it, I think, the only people you end up
6 fooling are yourselves in that kind of thing.

7 COMMISSIONER MANN: Thank you very much.

8 THE CHAIRMAN: Mr. Sinclair, this important
9 conference you suggest -- would that mean an adjournment
10 until 3:30?

11 MR. SINCLAIR: Yes, I would think so, unless
12 something I don't expect to happen happens, and I will
13 undertake to assist my friend in this regard that in view
14 of the fact that I have been going last in these cross-
15 examinations, I will undertake that his Mr. Little will
16 not be delayed by me.

17 MR. FRAWLEY: Friday night is the complete
18 deadline.

19 THE CHAIRMAN: We will be through.

20 MR. SINCLAIR: I think he will be through by
21 Friday night.

22 -- A short recess --
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2 THE CHAIRMAN: Order, please.

3 Commissioner Platt?

4
5 BY COMMISSIONER PLATT:

6 Q. Just a couple of questions, Dr. Harries.
7 One is sort of a general question and one is a matter
8 of detail.

9 The general one is: the main premise of
10 your submission is that the regulation of railways
11 could be greatly reduced and brought to the point
12 where about the only thing you recommend was maximum
13 rates in relation to the other matters?

14 A. Yes, sir.

15 Q. Do you envisage the time, or do you
16 think that over a period of time even this will become
17 less and less significant?

18 A. Yes, sir, I do.

19 Q. And that conceivably in a matter of
20 time we might not even need maximum rate control
21 either?

22 A. I should think, sir, that that would be
23 a definite policy objective.

24 Q. And, then, in the matter of detail:
25 in your proposal you suggest that the maximum rate be
26 related to the lowest competitive rate, and, assuming
27 that the lowest competitive rates can be defined and
28 you get away from giving any discount as it might
29 arise by short term rates and that sort of thing,
30 would you give any discretion to the Board at all?



1
2 Or have you thought about that? It is a matter of
3 detail.

4 A. I have not really thought about it, sir.
5 There may be, certainly in the transitional phase,
6 some necessity for more action on the part of the
7 Board than I have indicated in the brief.

8 This, I think, could only be determined as
9 a result of detailed studies with the actual rates in
10 the rate situation. But, as a principle, sir, I would
11 say in answer to your question, no, that the Board
12 would not have detailed supervision over anything but
13 the maximum rates.

14 Q. In other words, it would be purely and
15 simply on the arithmetic of the matter?

16 A. Basically, yes, sir.

17 I may say, sir, my reason for thinking this
18 is that it is very, very difficult, once you start,
19 to draw the line. And, consequently, I must express
20 myself in favour of not starting.

21 Q. Now, as I understand this, the railways
22 would be free to set their rates as they saw fit,
23 without any reference to the Board whatsoever, and the
24 Board would not come into this picture at all unless
25 they received a complaint from the shipper?

26 A. That is correct, sir, and I just might
27 make one observation. This term "shipper" excludes
28 certain people, as was shown in the Agreed Charge
29 cases, and I would not wish to confine objections to
30 those of shippers only.



1
2 In other words, I think the bodies, such as
3 the Alberta Freight Bureau, or the Maritime Transporta-
4 tion Commission, or the Manitoba Transportation Com-
5 mission, properly have a place as a watchdog on this
6 rate structure. And, so, in the definition of who
7 can intervene, I would like to see it a little broader
8 than simply the word "shipper". But this, once again,
9 is detail.

10 Q. Yes, I quite realize it is. Sometimes
11 we get held up in our thinking on details.

12 A. Yes, sir.

13 Q. In view of the fact that this matter is
14 merely a matter of arithmetic would you envisage very
15 many complaints coming to the Board?

16 A. No, sir, I would not, except in the
17 initial stage. I think there would be a necessity for
18 almost a codification of the rules of arithmetic, and
19 so that, initially, I am sure there would be a number of
20 instances come to the attention of the Board. But, I
21 think that once you have cleared those away and it
22 became generally understood as to how this method would
23 work that there would be fewer and fewer.

24 Q. Well, I would think they would practi-
25 cally disappear because a shipper, regardless of who
26 he might be defined as, a shipper could say this was
27 or was not, and just go to the railway, and it would
28 be settled right there?

29 A. I think so, sir.

30 Q. On the matter of minimum rates, would you



1
2 allow the truckers to appear before the Board?

3 A. No, sir. I think that once you get
4 into this area, attempting to set minimum rates to
5 avoid destructive competition, that you are into an
6 area that is fraught with difficulties and possibilities
7 for misunderstanding, and as I appreciate the situation
8 in the United States -- and I may say, sir, that Dr.
9 Nelson is in my opinion one of the authorities on this
10 matter in the United States, as is another witness that
11 the Province intends to call, that you get such a con-
12 fusion of objectives with respect to minimum rate
13 regulation that it becomes virtually impossible to
14 adopt a consistent policy. So, I would not be in
15 favour, sir, of having competing carriers making an
16 appearance in those cases where minimum rates were to
17 be decided if in fact it was thought advisable to
18 have minimum rate regulation, but I would, with respect,
19 sir, suggest that Dr. Nelson might be able to give an
20 elaboration of that point much better than I can.

21 COMMISSIONER PLATT: Thank you, Dr. Harries.

22 THE WITNESS: Thank you, sir.

23
24 BY THE CHAIRMAN:

25 Q. Dr. Harries, we have a great deal of
26 information about the difficulties of the railways and
27 we know they are real and not imaginary. Now, revenues
28 are vital to the railways. Have you given thought to
29 what your scheme would do to revenues?

30 A. Yes, I have given thought to it, sir,



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2 and I believe that under this scheme there would be
3 every opportunity for the railways to substantially
4 increase their net revenues and without recourse to
5 general rate investigations and the disruptive con-
6 sequences of horizontal percentage increases.

7 Q. You realize how vital revenues are?

8 A. Most certainly, sir. I believe that
9 the railways, as indeed any commercial enterprise in
10 Canada, are entitled to earn a fair return, and I think
11 under this proposed system the possibilities and the
12 opportunities are far better than they are under the
13 system as it now operates.

14 Q. Now, we have had inflation. Would con-
15 tinuing inflation impair your scheme?

16 A. No. It has, as I suggested, the almost
17 inherent ability to meet inflation or deflation because
18 the general level of the rate structure is under this
19 scheme without the competence of the railways to adjust.

20 Q. Now, there was some mention of passenger
21 service yesterday. What is your view in this regard?

22 A. Well, I think passenger service, sir,
23 must be conducted by the railways on a completely
24 businesslike basis. If it is profitable to the
25 railways to operate passenger services, then those
26 passenger services should be operated. If it is not
27 profitable to the railways to operate passenger ser-
28 vice, then the passenger service should be abandoned.

29 If it is deemed to be a social necessity to
30 have certain passenger service operative, well, then, the



1
2 government may hire the railway to operate that
3 passenger service.

4 Q. The Government of Canada?

5 A. Or of the provinces, or of a municipality,
6 having in mind, for example, the commuter question.

7 Q. Now, you mentioned compensation this
8 morning?

9 A. Yes, sir.

10 Q. Who would pay compensation to those who
11 are hurt?

12 A. I would think, once again, sir, that it
13 would be initially the federal government, but it could
14 well include provincial governments or, again, muni-
15 cipalities, in particular cases.

16 THE CHAIRMAN: Mr. Frawley?

17 ---RE-EXAMINATION BY MR. FRAWLEY:

18 Q. Mr. Harries, there are just two questions
19 in re-examination.

20 In your long and short haul submission, Mr.
21 Sinclair questioned you with respect to what you said
22 on page 21 under subparagraph (a), and I will read
23 just the first sentence of what you said:

24 "The railway argument is valid only
25 if the traffic which the competitive
26 rate seeks to obtain for the railway can
27 be handled without an outlay of capital
28 funds for increased equipment or
29 facilities."
30



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2 And you recall the interchange between yourself and
3 Mr. Sinclair in that regard during cross-examination?

4 A. I do, sir.

5 Q. Do you recall the challenge which was
6 made at the time when an agreed charge on cast iron
7 pipe was made between the railways and Canada Iron?

8 A. I do, sir.

9 Q. And have you had occasion to look into
10 the record in the Board of Transport Commissioners with
11 respect to that case?

12 A. I have, sir.

13 Q. And you are familiar with it, and you paid
14 some attention at the time you were appearing as a
15 witness for the Province of Alberta in the Royal Com-
16 mission on Agreed Charges?

17 A. Yes, sir, I did.

18 Q. Now, I want to show you a copy of
19 Exhibit 8 which was produced by the Canadian Pacific
20 Railway Company in that case, and it is a statement
21 which purports to show the relation between proposed
22 revenues and out-of-pocket costs and proposed revenues
23 and all-inclusive costs for the movement of cast iron
24 pipe and fittings in carload lots from Trois Rivières
25 to Vancouver, and from Toronto to Vancouver and
26 from Trois Rivières to Port Arthur. In that case,
27 actually Mr. Barnstead, the Canadian Pacific witness
28 offered this exhibit in the hearings in Ottawa,
29 November 9, 1953, and I want to read to you just a
30 short passage from the statement at that time by Mr.



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2 Barnstead when Exhibit 8 was filed by Canadian Pacific
3 Commission Counsel Mr. Spence:

4 "Q. Now, Mr. Barnstead, will you explain
5 Exhibit No. 8. In the first place it is ex-
6 pressed in cents per 100 pounds and it appears
7 to show the relationship between the proposed
8 revenues and the out-of-pocket costs and the
9 proposed revenues and the all-inclusive costs
10 for the movement of this pipe under the
11 agreed charge.

12 "In the first place, in the first line of
13 the figures you have shown the revenue as per
14 proposed agreed charge, which I understand is the
15 rate that is fixed by the agreed charge of \$1.18
16 from Three Rivers to Vancouver and \$1.10 from
17 Toronto to Vancouver?

18 "A. That is correct.

19 "Q. Yes. Then, the next line is the out-
20 of-pocket costs which are shown as 82½ cents
21 from Three Rivers to Vancouver and 73.3 cents
22 from Toronto to Vancouver. What do you mean
23 by out-of-pocket costs?

24 "A. The out-of-pocket costs are those
25 costs that can be considered to vary directly
26 with traffic moved. In other words, they are
27 the expenses that would be incurred on account
28 of the additional traffic that would be
29 moved.

30 "Q. And they don't include any allowance



for overhead?

"A. They do not include any portion of
constant costs.

"Q. Constant costs?

"A. Yes.

"Q. They are purely ---

"A. The figure that could be considered
the cost of the company that would be incurred
with this additional traffic, with the movement
of cast iron pipe."

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3 Q. I want to ask you whether or not you had
4 such considerations and such costing figures as those in
5 mind when you made the statement that you did on page 21
6 and to which my friend Mr. Sinclair took some exception.

7 A. That is correct, that was a kind of costing
8 figure I had in mind. What I was suggesting was that the
9 figures to be found in exhibit 80 in the cast iron pipe
10 case did not include and did not contemplate the extension
11 of this kind of an agreed charge over a period of years
12 during which time some of those things I gave you that
13 would not be properly chargeable in the short term would
14 in fact become chargeable expenses. For instance, this
15 agreed charge from Toronto to Vancouver of \$1.10 is still
16 in effect. These figures were derived sometime prior
17 to November 9, 1953 and that is a period of seven years
18 in which this \$1.10 --

19 Q. Let me correct you. To be precise page
20 3 of exhibit 149 which is a statement of all the agreed
21 charges in effect shows for agreed charge No. 57 which
22 is the agreed charge in question, pipe cast iron and
23 fittings for some except valves carload for pressures
24 water system for Toronto, Ontario, and Trois Rivières,
25 Quebec, became effective on 11/1/54. It is 100% of the
26 traffic and resorting to the records of the board's files
27 will show that the rate of \$1.10 and \$1.15 from Toronto
28 and Trois Rivières are still in existence. The only
29 change has been the agreed charges has been expended to
30 Kitimat where it is \$1.30 from one of these origins and



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3 \$1.30 from the other origin.

4 You were calling attention to the fact that
5 this \$1.10 and \$1.18 has been in effect since the 11th
6 of January, 1954 when you made the statement that you
7 did with regard to capital cost in that context.

8 A. That is correct, sir.

9 Q. Now, I only want to ask you about one other
10 point and that is the exception Mr. Sinclair took on the
11 same page 21 when he had a very interesting discussion
12 with you about meeting internal market competition. You
13 said one of the cases you relied upon was the case that
14 Commissioner Mann brought to our attention and that is
15 the case known as the "Cement Clinker case". I would
16 call your attention to a short passage from the reply
17 made by the Canadian Pacific Railways to the application
18 for disallowance where the board said:

19 "The reply of the railway is
20 reproduced here in full as it is
21 important to the hearing of the
22 matter."

23 That is on the top of page 198. The reference
24 for the case is JOR and R at page 193. At page 199 I
25 would like you to tell the Commission what the Canadian
26 Pacific Railways themselves call the rate for which
27 disallowance was sought.

28 A. They said:

29 "It is perhaps best described as
30 a market competitive rating,



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3 although in a more limited sense
4 it is competitive with the real
5 rate on limestone from Cadomin."

6 MR. SINCLAIR: That is the one the board
7 refused to allow.

8 MR. FRAWLEY: Q. Yes. I have never been
9 accused of not presenting a case properly and I
10 certainly want to call attention to the fact that the
11 board said at page 200:

12 "The Board does not consider that
13 a 'market-competitive' rate can
14 be established without giving other
15 manufacturers the opportunity of
16 competing in this same market area
17 on the same basis of rates."

18 What I am seeking to do is call attention to
19 the fact that the railways themselves are called a
20 market-competitive rate and you regard that attempt by
21 the railways to put in a rate which the Board disallowed
22 as an attempt to meet internal market competitive.

23 A. Definitely, sir.

24 MR. FRAWLEY: That is all, thank you.

25 THE CHAIRMAN: Thank you, Dr. Harries. It has
26 been very nice having you here and hearing you again.

27 THE WITNESS: Thank you very much.
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29
30



JAMES C. NELSON, called

THE CHAIRMAN: Just to shorten the time if it will not interfere with your conference, Mr. Sinclair, we will go on until 12:30.

MR. SINCLAIR: That will be quite satisfactory because my conference does not start until just before 1 o'clock.

BY MR. FRAWLEY:

Q. Your name is James C. Nelson?

A. Yes, sir.

Q. And you are a Professor of Economics with the Department of Economics at Washington State University?

A. Yes, sir.

Q. Mr. Chairman, I would like taken into the record the complete memorandum which I have with respect to Dr. Nelson's educational background of professional experience and I will highlight it rather than read it all.

EDUCATIONAL BACKGROUND

<u>Institutions</u>	<u>Period</u>	<u>Degrees</u>
University of Washington	1926-1930	B.A. - 1930
Ohio State University	1930-1931	M.A. - 1931
University of Virginia	1931-1933	Ph.D. - 1934
Brookings Institution	1933-1934	(Research Fellow)

<u>Employer</u>	<u>Place</u>	<u>Dates</u>	<u>Duties</u>
American Trucking Ass'n., Inc.	D.C.	1934-35	Research
Washington Dept. of Public Service,	Olympia, Wn.	1935-36	Director of Research
University of Richmond,	Richmond, Va.	1936-37	Teaching economics
University of Tennessee,	Knoxville, Tenn.	1937-38	" transportation
U.S. Dept. of Agriculture,	D.C.	1938-40	Dir. of Research & Adm.
Nat'l Resources Planning Board,	D.C.	1940-41	" " "
Bd. of Investigation & Research	D.C.	1941-44	" " "
Office of Defence Transportation,	D.C.	1944-45	" " "
U.S. Dept. of Commerce,	D.C.	1945-47	" " "
Washington State University,	Pullman, Wn.	1947 to date	Teaching and research in transportation
The Brookings Institution,	D.C.	1956	Senior Staff Member, July 1, 1956 through June 30, 1958. 1956-57 on leave from Washington State University to write a book.

Also: Economic Consultant - Legislatures of States of Washington & No. Dakota; Province of Alberta, Canada; U.S. Department of Agriculture and Commerce, Washington, D.C.; and Stanford Research Institute and Government of Nigeria.



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26 and S. Doc. No. 78, 79th Cong. 1st sess. 1945, 325 pp.

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17 "Highway investment and Financing", Highway Research
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"Investment Conditions in Highways," Proceedings of the 24th Annual Conference of the Pacific Coast Economic Ass'n., Dec. 28-30, 1949, pp. 24-29.

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"Joint-Board Procedure under the Motor Carrier Act,"
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and "Motor Transport", Colliers Encyclopedia.

BIOGRAPHICAL LISTINGS

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Who's Who in Commerce and Industry



1
2 Who Knows and What

3 Directory of American Scholars

4 The 1948 Directory of the American Economic
5 Association (and subsequent Handbooks)

6 America's Young Men, 1938-1939, Vol. III

7 Q. You hold a B.A. from the University of
8 Washington in 1930; an M.A. from Ohio State University in
9 1931; a Ph.D from the University of Virginia in 1934 and
10 you are a research fellow of the Brookings Institution.

11 A. Yes, sir.

12 Q. Among the various phases of your experience
13 I would like if you would be so kind as to highlight
14 these phases of your career to acquaint the Commission
15 with your more significant ones. For instance, I noticed
16 in the memorandum that you were associated with the
17 Washington Department of Public Service. Now, what
18 capacity and would you just say a word about that.

19 A. I was Administrative Assistant to the
20 Supervisor on Transportation who was in effect one of the
21 three Commissioners of the Washington Department of Public
22 Service. This was in 1935 and 1936. I was also Chief of
23 the Division of Research and Statistics and that Commission
24 set up in order to encourage a research post on
25 transportation and facilities.

26 Q. You were also associated with the Department
27 of Agriculture.

28 A. After teaching a couple of years I accepted
29 a position as Transport Commissioner in the Bureau of
30



1
2 Transport and was there from November 1938 to November
3 1941. The nature of my business there was to do research
4 on transportation rates in relation to agricultural
5 development and income and to participate in cases on
6 agricultural production before the Inter-State Commerce
7 Commission.

8 Q. You were also associated with the Planning
9 Board in Washington.

10 A. I was on leave from the Department of
11 Agriculture for almost a year, 1940 to 1941 to do a study
12 on the trend in regulations on the economy on the effects
13 of regulations, transportation and national policy which
14 was published by the National Resources Planning Board
15 of the United States Government in May, 1942. I might say
16 that this was somewhat of a controversial document and in
17 one respect it raised some questions of where the United
18 States was getting in its regulatory direction that it
19 had adopted in 1930. I might also add this issue has
20 come into full fruition in the 1930's.

21 Q. You were also associated with the Board
22 of Investigation and Research in Washington?

23 A. This Board was set up by the Transportation
24 Act of 1940. I was Assistant Director of Research on
25 the Regulatory Policies and organized the staff who made
26 the statistical and analytical study of the economic
27 effects of certificate and permit regulations of the
28 International Commerce Commission upon motor and water
29 carriers. This was published in 1955 by the Congress
30 and the full citation is shown on page 2.



1
2 Q. You were also associated with the United
3 States Department of Commerce. Will you tell the
4 Commission in what respect?

5 A. Yes. After a short service of six months
6 with the Office of Defence Transportation after I left
7 the Board of Investigation and Research I began work with
8 the Transport Department of the Department of Commerce.
9 In this respect I was Transport Adviser to the Secretary
10 of Commerce, in fact, the three secretaries of Commerce
11 and directed their research in transportation in the
12 United States Department of Commerce, analysis, proposed
13 legislation, participated in interdepartmental committees
14 especially on the bureau budget concerning transportation
15 proposed policies as such as whether we were going to
16 collect any and the different data from the firms through
17 census. I just give that as one example. We also acted
18 before the I.C.C. in the early days of the general rate
19 increase after the war during my incumbency at the
20 Department of Commerce.

21 Q. I do not know whether you have covered it
22 or not but you are one of the people who prepared a study
23 under the general direction of Professor Ernest Williams.
24 Does that work come under your submission here or your
25 association with the United States Department of Commerce?

26 A. Yes, it is there but it is little hard to
27 find unless you read it very carefully. Last spring,
28 that is the spring of 1959, I was asked along with a
29 number of other university professors and consultants
30 to the field of transportation to go to the aid of the



1
2 federal government in connection with President
3 Eisenhower's transportation policy study which he
4 requested in the budget statement for the fiscal year
5 1960. He requested the Under-Secretary of Commerce for
6 Transportation to make a study of the issues of public
7 policy and to evaluate them and to make suggestions.
8 Professor Ernest Williams of Columbia was chosen Staff
9 Director and I was among those asked to ~~make~~ underlying
10 representations and I did one. I was asked to review
11 the administrative standards of the I.C.C. in regulating
12 entry control in the field of railroads, motor carriers,
13 water carriers, pipelines and freight forwarders but not
14 air transport and to file the economic effects upon all
15 relative groups and to make suggestions. I submitted early
16 in October a 414 page manuscript on this subject. This is
17 available in the Library of Congress and the Department of
18 Commerce library but it has not yet been published but
19 neither have any of the other underlying representations
20 the Department of Commerce has made.

21 Q. You are presently associated with the
22 Washington State University doing teaching and research
23 work in transportation?

24 A. Yes, sir. My major function at the
25 university is that I am in charge of their transportation
26 program which I set up in 1947 when I resigned from the
27 Department of Commerce. I present the courses in
28 the field of transportation there and I do a few other
29 things such as committee work and I carry on independent
30 research and some research for the college.



1
2 Q. As to the Brookings Institution in
3 Washington, what was your association with them?

4 A. I was associated with them in one of my
5 three years of graduate study towards my Ph.D as a
6 research fellow and I wrote my doctor's thesis while
7 there with the supervision of some of the men there in
8 the field of transportation. More recently I was invited
9 to take a leave of absence for a year, 1956 to 1957, and
10 to continue to work part time for another year at
11 Washington State College to do a study of the problem of
12 the railroads in the United States. I did that study and
13 it was published in April, 1959 under the title of
14 "Railroad Transportation and Public Policy."

15 Q. That is the one that is listed at the bottom
16 of the first page of this memorandum.

17 A. I believe so.

18 Q. You are now acting or have acted as
19 Economic Consultant to the Legislature of the States of
20 Washington and North Dakota, to the province of Alberta,
21 meaning this Commission which we are now concerned with
22 and also to the United States Department of Agriculture
23 and Commerce and Stanford Research Institute and also
24 the Government of Nigeria.

25 A. Yes. I would like to add that I spent five
26 years, from 1940 to 1952, all summers full time and part
27 time during each of those years while I was teaching
28 making ~~three~~ studies of highway finance needs in the State
29 of Washington and North Dakota and of the problem of how
30 you should adjust user differences for different classes



1
2 of motor vehicles so that you would do this both
3 equitably and economically. The last assignment other
4 than this one I have done is one for the Government of
5 Nigeria as a consultant to the Stanford Research
6 Institute which was engaged by the Government of Nigeria.
7 I was there last summer to make regulatory policy in this
8 regard and with regard to economic development of
9 transportation in order to contribute to the development
10 of their underdeveloped economy for the next ten years.

11 Q. Now, you were asked ~~by me~~ to prepare a
12 submission dealing with the economic effect that rate
13 parity in the transcontinental rail system in the United
14 States has had on the inter-mountain region of the United
15 States. You did that?

16 A. Yes.

17 Q. That is the submission you have with you
18 this morning.

19 A. Yes.

20 Q. Well, in view of the fact that it does run
21 into 76 pages I am going to leave it to your own judgment
22 as to how you put the manuscript into evidence. I can
23 assure you the transcript will show all the submission
24 but I want you to make such comment, to read as much of
25 it as you think should be read and to deal with some of
26 it by paraphrasing. In other words, I want you to use
27 your own judgment as to how you put it into the record
28 knowing it will all appear in the transcript in any
29 event.
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2 THE WITNESS: In the United States, long and
3 short haul discrimination has long been regarded as a
4 particularly obnoxious form of freight rate discrimination
5 to be justified only in special and limited circumstances.
6 As in Canada, much controversy arose over whether
7 interior communities and the economy as a whole were
8 benefited or injured by such discrimination.

9 Previous to 1918 Spokane, Washington, and other
10 intermountain cities were generally charged higher rail
11 rates to and from eastern points on transcontinental
12 shipments than were assessed to terminal cities on the
13 Pacific coast. In that year, the Interstate Commerce
14 Commission required that the railroads quote to those
15 interior cities the same freight rates on westbound
16 transcontinental shipments as applied to Seattle and
17 other coastal cities with which the inland cities were
18 in competition for wholesaling, manufacturing and
19 retailing activities.

20 In subsequent years, this rate parity was
21 extended on eastbound shipments as well, and that general
22 situation has been as stated since that time.

23 In the years before 1918, the Intermountain
24 cities, led by Spokane, contended that their economic
25 growth and business opportunities had been retarded by
26 the discriminatory rate practices to which they had
27 long been subjected. The wholesaling and jobbing trades
28 were the business groups originally most concerned with
29 the restrictive effects on their distributing terri-
30 tories and sales volumes of the higher rates to and



1
2 from interior cities in the Intermountain West and to
3 and from the terminal cities. Those trades could be
4 conducted from coastal cities as well as from interior
5 cities if freight rates favoured the former whereas
6 many of the industries of the intermountain region at
7 the time were oriented to the agricultural, forestry
8 and mineral resources located in that region. In
9 addition, transcontinental freight rates on lumber and
10 agricultural products had been made relatively low to
11 encourage development of extractive resources.
12 Nevertheless, intermountain interests also contended
13 that such discriminating rate practices limited manu-
14 facturing at interior locations.

15 The wholesalers and jobbers complained that
16 their natural distributing territories had been re-
17 stricted despite their being from 100 to 150 miles
18 nearer eastern markets to the sources of supply than
19 the Pacific coastal cities. For example, Seattle
20 wholesalers distributed almost to the very gates of
21 Spokane whereas if Seattle and Spokane had had equal
22 landed costs so far as freight rates from the east
23 were concerned it would follow that each city would
24 distribute to about the halfway point between the two
25 cities; that is, one-half of the distance western from
26 Spokane would be western territory and one-half of
27 the distance from Spokane would be Seattle's territory.

28 As in the case of Spokane, the wholesaling
29 and jobbing interests of the other interior western
30 communities claimed that they had experienced similar



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2 economic and business effects from higher rates than
3 those which applied to the terminal cities on the
4 Pacific coast. Among other complaining inland cities
5 were Boise, Idaho; Missoula, Helena, Great Falls and
6 Billings, Montana; Salt Lake City and Ogden, Utah;
7 Denver, Colorado; Albuquerque and Santa Fe, New
8 Mexico; Phoenix and Tuscon, Arizona; Reno, Nevada;
9 and even such an interior California city as Fresno.

10 The manufacturers also felt restive and com-
11 plained of the higher rates to intermountain cities
12 than to the Pacific coast, in particular, the cost of
13 materials in such as iron and steel were priced higher
14 to the intermediate points, and also because they found
15 their markets were restricted because of the higher
16 rates at intermediate cities than from the Pacific
17 coast when shipping to the east. They also found a
18 psychological barrier to new locations in that when
19 industrialists were looking around for a plant location
20 they were, of course, aware of the rate handicap that
21 these intermountain cities had.

22 Certain other effects were claimed by inter-
23 mountain communities and business groups. The higher
24 freight rates to interior cities made the retail stores
25 of such communities less advantageous places for
26 consumer purchase, for higher transport costs tend to
27 be reflected in the prices of commodities and services
28 in the long run. Service industries dependent on
29 the volume of retailing and the number of industrial
30 and marketing jobs consequently expanded less than



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2 might otherwise have occurred. Even banking, insur-
3 ance and other financial services at intermediate points
4 would tend to feel the restrictive effects of rate
5 discrimination conditions limiting the growth of
6 wholesale and retail trade, manufacturing, and the level
7 of employment.

8 According to intermountain groups, the rate
9 of parity thus achieved widened the wholesaling and
10 jobbing territories of interior cities, increased their
11 wholesale trade volume and employment, reduced the cost
12 of goods at retail and in large retail sales at
13 principal interior cities, and attracted additional
14 manufacturing industries to interior locations. In
15 addition it has been claimed that population growth either
16 resumed or expanded had increased rates as an overall
17 result of removal of gross long and short haul discrimi-
18 nation during and after World War I.

19 Now, pages 5, 6 and 7 deal with freight rates
20 as a factor in the location of industry and trade.
21 There are many factors involved in locational situations
22 and in the relative growth of industries at different
23 locations. For example, in addition to freight rates
24 and differences in freight rates, there are such
25 factors as the quantity and quality of the available
26 labour, the wage rates for different grades of labour,
27 the availability of essential raw materials, the
28 adequacy and cheapness of the power supply, the avail-
29 ability and cost of capital, the size and characteris-
30 tics of markets, and often a host of institutional



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2 factors that have something to do with relative develop-
3 ment and locations. Only where freight rates or
4 differences in freight rates are significant parts of
5 total production and distribution costs are they
6 likely to become controlling in locational decisions
7 or in business development. On the other hand,
8 relative transport costs are always given consideration
9 in making locational decisions, including those in-
10 volving expansion or contraction of production at
11 existing locations. The presence of other factors
12 than transportation rates or differences in rates is
13 illustrated by the coming of the aluminum plants
14 during and after World War II.

15 THE CHAIRMAN: To Spokane?

16 THE WITNESS: To Spokane, yes. Here there
17 were obviously the factors of defence policy in locating
18 plants in interior areas, the availability of a large
19 quantity of low cost power, the great wartime and even
20 increasing postwar demands for aluminum, and other
21 factors that I point out on page 6 of the brief, and
22 I would like to read the last sentence of the first
23 paragraph on page 6.

24 To the extent that the elimination of long
25 and short haul discrimination had stimulated Spokane
26 to grow into a city of considerable size with an
27 adequate supply of labour and other facilities for
28 a large industry, it is likely that the rate parity
29 brought about years before aluminum production was
30 contemplated at Spokane at least indirectly contributed



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2 to the ultimate decisions to locate large scale
3 aluminum manufacturing at Spokane and to the sub-
4 sequent expansion of facilities that has occurred.
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2 I explained this in a later part, Part IV of
3 the brief. Another reason why it is difficult to trace
4 the economic effect of removal of long and short haul
5 discrimination is the lack of thorough-going economic
6 analyses of this problem. I searched very industriously
7 last winter and was unable to uncover a single such study,
8 though I uncovered many volumes of Hearings and many
9 studies, some very good ones, that I cited in one of my
10 footnotes, of the policy of the Interstate Commerce
11 Commission in adjusting and relieving the intermediate
12 points of serious long and short haul discrimination.

13 I therefore wish to acknowledge that I present
14 this testimony in some modesty because of the difficulty
15 of the problem, the many factors that enter into it, and
16 the lack of serious thorough-going types of studies of
17 the problem to which I refer in the time I had available.

18 On the other hand, I submit that the results
19 that I have discovered and set forth here are pertinent
20 to consideration of the question, which is whether long
21 and short haul clause limitation does have economic
22 effects or not. I believe that the experience in the
23 United States has some applicability to the Canadian
24 problem. I mentioned the reasons on page 8: first, we
25 have in both countries the necessity of spanning the
26 entire continent. Secondly, in both countries the
27 most important industries and population centers are in
28 the Eastern regions and there are large volumes of
29 inter-change of traffic and trade between the Eastern
30 and the Western regions. Thirdly, the railways of both



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2 countries have faced inter-coastal that other water
3 competition and have quoted lower rates to coastal
4 points than to intermediate cities in the prairie or
5 inter-mountain regions. Finally, the Pacific Coastal
6 cities in each country have developed similar industries,
7 especially when comparison is limited to the cities of
8 the Pacific North-West; and the Western interior areas of
9 both countries are devoted largely to agriculture,
10 mining and petroleum recovery and refining.

11 While these similarities suggest some attention
12 to the economic results of the parity policy in the
13 United States, I do not maintain that all United States
14 public regulatory policies are applicable in Canada, nor
15 should even, if applicable, be applied in Canada. I do
16 think, though, that our experience in the field of long
17 and short haul regulation gives us a rather unique
18 scientific procedure for, as I said on page 8, we have
19 a before and after situation. We had very little
20 restriction upon long and short haul discrimination prior
21 to the period 1911 to 1918, and after that period we have
22 had, as far as the transcontinental market is concerned,
23 or trade route is concerned, we have had almost complete
24 elimination of long and short haul discrimination, in
25 the sense, and in the sense only, however, that the
26 rates to and from Eastern and mid-Western points to
27 intermediate cities are not even the same as to coastal
28 cities. And to the extent and in the sense that the
29 rates from the coastal cities and the intermediate cities
30 are the same to the same points in mid-Western and eastern



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2 cities -- not in the sense that when you adjust rates
3 finally to the cost of service that the rates to the
4 intermediate points and from the intermediate points do
5 not today have any long and short haul discrimination,
6 for since cost -- marginal cost -- by railroad must
7 be less from, say, Chicago to Spokane than it is from
8 Chicago to Saattle, but the rates are the same, there
9 must still be some long and short haul discrimination in
10 that sense left in these rates. .

11 Now, then, I think I might well explain at this
12 point the organization of this study and my methods. If
13 you note the table of contents, Part II gives some data
14 showing the economic development of Spokane before 1918
15 and after 1918. Part III refers to some of the testimony
16 that was given by Spokane interests as to the effects
17 that long and short haul discrimination was having prior
18 to 1918 when it still existed in the sense that the rates
19 were higher to and from intermediate points than to and
20 from the Pacific Coastal points. Part IV presents
21 evidence from objective studies and evidence from
22 enquiries which I made by letter and by interviews of
23 Spokane businessmen as to the effects of that data, and
24 in their judgment what occurred in terms of marketing
25 territories since 1918 and in terms of the relative
26 volume of, say, wholesaling in Spokane and the trends
27 in the volume at Spokane.

28 I think the methods are obvious from my
29 explanation of the parts. I went to the historical
30 sources for evidence to what the effects were prior to



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2 1918. It is very difficult to do otherwise, because
3 you would have to make a study of each individual firm's
4 records, and many firms did not keep business records
5 of the type they keep today way back in those days. And
6 the time that I had available made this impracticable.

7 Now, with respect to the effects since 1918 or
8 1920, it was possible to go to census and other sources
9 to show what has happened in Spokane, which I do in Part
10 II. Now, then, with respect to the effect on marketing
11 territories served by Spokane wholesalers, I was
12 fortunate to find that in my own university and my own
13 colleagues had several years ago made a detailed study of
14 the Spokane wholesale market and had found that the
15 Spokane wholesale market had relatively wide marketing
16 territories in the period 1939 to 1948, as shown by the
17 census of distribution, and that they had, without any
18 thought that there would be a hearing on this subject
19 in Ottawa, ascribed some of the reasons, which I refer
20 to, for these wide territories and rapid growth of
21 wholesaling in Spokane. In addition to that, I went
22 to the senior businessmen in Spokane, sent them letters
23 of enquiry, and asked them to comment on what to their
24 knowledge had been the effects upon their businesses and
25 upon their market territories. I included a few of the
26 industrialists, and then I subsequently talked to all
27 or most of those gentlemen to get detailed information
28 and to clarify it.



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THE CHAIRMAN: When did you do all this?

THE WITNESS: I started on February 1st and finished the process just about the last of September.

THE CHAIRMAN: Of this year?

THE WITNESS: Of this year, yes. Now, discussing Part II which begins at page 11, I wish here to bring to your attention the nature of the discrimination we were talking to by stating from the table, pages 11 and 12, two or three illustrations. For instance, soap; back about 1915 the rate from New York to Spokane was \$1.08, and the rate from New York to the Pacific coast was 80 cents. In the case of chicory and coffee substitute the rate to Spokane from Chicago was \$1.02 and from Chicago to the coast it was 95 cents. On grapejuice the rate from Cincinatti and Detroit to Spokane was \$1.27 and the rate from Cincinatti and Detroit to the coast was \$1.10. There are other illustrations given here in this table taken from the testimony of Mr. Markham, General Manager of the Spokane Chamber of Commerce, given before the subcommittee on interstate foreign commerce on HR 6141 in April-May, 1956. This was one of the hearings on the so-called cabinet committee report in the United States.

On page 13 I quote from Mr. Markham as to his testimony before the Congress of the United States as to what the effects were of the long and short haul discrimination and what the effects were after the



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2 elimination of that discrimination or substantial
3 elimination of it. I would like to read this paragraph
4 from page 13:

5 "These adverse freight rates had an
6 impact upon the growth and development of
7 the entire mountain area. Prior to 1910
8 Spokane had made a substantial growth,
9 primarily because of the exploitation of its
10 agricultural, mining, and lumbering resources.
11 The population attained at that time appar-
12 ently was a maximum number that could be
13 supported by a raw materials economy, since
14 the population of the decade 1910-20 in-
15 creased only slightly. Because of dis-
16 criminatory long short haul freight rates,
17 and they were in effect at that time, com-
18 mercial and industrial development was
19 retarded. Protection was granted that
20 area, however, by the March 15, 1918,
21 decision of the Interstate Commerce Com-
22 mission granting terminal rates to the
23 intermountain territory and by the adoption
24 of the reasonably compensatory amendment
25 to the fourth section of the Act in 1920.
26 With this protection, the area again
27 started to develop commercially and
28 industrially, and the population of
29 Spokane has grown from 104,430 in 1920
30 to an estimated 186,000 today."



1
2 Now, in the pages that follow, page 14, I
3 give tables to illustrate this growth or to demonstrate
4 it, and the first one is on page 15. This gives the
5 population growth according to the United States
6 census by decades from 1910 through to 1960. I
7 think I need not read this data, but I would like to
8 add to the record here the preliminary 1960 data.

9 For 1960 for the City of Spokane it is
10 179,729, and that means an absolute increase from 1950
11 to 1960 of 11.1 per cent.

12 Now, you will notice by scanning those figures
13 that there was a great growth of population between
14 1890 and 1900 and 1900 and 1910. I explain in
15 subsequent paragraphs that this was due to the initial
16 settlement of the land tributary to Spokane. With the
17 coming of the Northern Pacific Railway and other
18 railways the population increased and the land was
19 taken over and they began to develop the mines and the
20 timber and this, of course, required a wholesaling
21 centre and a service centre and a shop centre and
22 Spokane was so located with respect to railway
23 transportation as a centre of this whole inland area,
24 and it grew very rapidly.

25 The railroads in their own interests gave
26 very low timber rates to stimulate the lumber business
27 and very low mineral rates, so you have no problem here;
28 you simply develop.

29 I would like to call attention to the fact
30 that Spokane did not grow between 1910 and 1920 and



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2 after 1920 it resumed its growth even in the period
3 of depression, 1930 to 1940, and I should like to read
4 the last paragraph on page 15:

5 "The failure of Spokane to grow in population
6 between 1910 and 1920 requires explanation.
7 This is especially true in view of the
8 stimulating impact of World War I and the
9 rapid gains made previous to that time. One
10 reason was that mineral, lumbering, and
11 agricultural development had already
12 completed the initial stages of discovery,
13 exploration, and extensive exploitation.
14 Thus, those activities were no longer
15 attracting population to the Inland Empire,
16 including Spokane. However, as Spokane had
17 already developed as a primary wholesaling
18 center, it seems reasonable to conclude
19 that another factor slowing population growth
20 to a virtual standstill was the higher
21 rates on manufactures and other goods to
22 Spokane from eastern cities than to Seattle
23 and Portland. The lack of new manufacturing
24 industries, to which incoming and outgoing
25 freight rate differentials must have
26 contributed, also partly explains the
27 inability of population to grow during that
28 period."

29 Then I go on to point out the boom in the 1920s and 30s,
30 and point out there were a number of factors in that.



1
2 Throughout my brief I express as my view,
3 taking away all the handicap of higher rates to and
4 from intermediate points, and particularly Spokane
5 where I have concentrated my study was the favourable
6 factor in this. Now, in the second part of page 16
7 you recognize that in Spokane as in many other com-
8 munities the metropolitan area has grown much faster.
9 I give there the metropolitan population for Spokane
10 in 1940 and 1950 being 165,000 roughly in 1940 and
11 221,000 in 1950, meaning a gain of 4.6 per cent.

12 I have now information here for the years
13 between 1950 and 1960, and the population of Spokane
14 county rose to 277,745, a gain of 551,000, or 25.4
15 per cent. That is what they call the metropolitan
16 area of Spokane according to the census. The whole
17 of Spokane County, most of it is Spokane City and
18 the immediate suburbs, and there is not much popula-
19 tion outside of that. There are no other large
20 cities in Spokane county.

21 I offer a table in here that I have put in
22 from data from my brief because from the last census,
23 the 1956 census, of population -- what it does is
24 compare the population growth in Spokane county and
25 the population growth in the counties that comprise
26 the metropolitan areas of Portland, Tacoma and Seattle.

27 Beginning with Spokane county, as I have
28 already said, the growth was 25.4 per cent from 1950
29 to 1960. For Pierce county which is the county
30 in which Tacoma is located on Puget Sound, the growth



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2 was 15.4 per cent, definitely less. For King county,
3 the county in which Seattle is located and the most
4 populous county in the State of Washington, it was
5 26.3 per cent. The Portland metropolitan area which
6 has four counties, three in Oregon and one
7 in Washington, the growth was only 15.7 per cent.
8 It seems that even in the last decade the metropolitan
9 area of Spokane has been keeping up with Seattle and
10 has done better than its sister cities of Tacoma and
11 Portland.

12 On page 17 I have tables to illustrate the
13 general business growth that occurred in Spokane. I
14 will not refer to these figures but I will read the
15 following material.
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2 Now, then, on page 17 of the brief I have
3 tables to illustrate from general business indices
4 the growth that occurred in Spokane. I will not refer
5 to these figures, but I will read the paragraph
6 immediately below.

7 The large increases in the total value of
8 each series after 1940 were influenced heavily by
9 about a doubling of the general price level owing to
10 World War II and postwar inflation as well as by the
11 growth of population, commerce, and industry at
12 Spokane. However, if the 1950 figures were halved
13 in order to eliminate the influence of price inflation
14 in a rough manner, it is still apparent that all the
15 business volume indicators given register large rates
16 of growth since 1940. The growth of bank transac-
17 tions and bank deposits during the 1910-1920 period
18 was substantially influenced by World War I inflation.
19 However, giving consideration to the decline in prices
20 during the early 20s and the decade of the 30s, the
21 business volume series generally show growth between
22 1920 and 1940, certainly between 1920 and 1929.
23 This is the period during which rate parity with the
24 Pacific coastal cities might be expected to encourage
25 general business growth, or at least to minimize the
26 tendencies toward decline that existed during the
27 great depression.

28 In the next two pages of the brief I give
29 evidence of the United States census data in the growth
30 of the wholesaling market. Referring to the table at



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2 page 18, you will note growth except during the de-
3 pression in dollar volume of wholesale sales in Spokane
4 city and in the number of establishments. I should
5 like to read the paragraph immediately below.

6 The drop in wholesale sales at Spokane after
7 1929 or 1930 was largely due to the great depression
8 which greatly lowered both the volume of business
9 activity and prices. It will be noted that the
10 number of wholesale establishments remained about the
11 same during the 1930-1939 period, although it had
12 increased by about 50 per cent by 1954. A further
13 increase of 15.7 per cent took place between 1954
14 and 1958. Again, a significant part of the great
15 gain in wholesale dollar volume since 1939 reflects
16 recent price inflation. However, if the 1954 figure
17 of \$384 million is halved to adjust roughly for rising
18 prices, the real wholesale sales volume considerably
19 more than doubled between 1939 and 1954. It almost
20 tripled between 1939 and 1958.

21 At this point I would like to put into the
22 record the data from the 1958 census of wholesaling
23 which has just become available in preliminary form.
24 I have the data here for county areas and city
25 areas.

26 For the county areas, for Pierce county,
27 the county in which Tacoma is located, wholesaling
28 outlets increased 2 16/100ths per cent from 1954
29 to 1958, and during that time wholesale sales increased
30 8 1/10th per cent.



1
2 In King county, the county of Seattle, outlets
3 increased in that period 12 2/10ths per cent, sales
4 23 3/10ths per cent.

5 In Multnomah county, the Oregon county in
6 which Portland is located, outlets increased 15 8/10ths
7 per cent, sales increased 33 6/10ths per cent.

8 In Spokane county outlets increased 20 8/10ths
9 per cent, a greater increase in the number of wholesale
10 establishments during 1954 to 1958 than in any of the
11 other of those four metropolitan areas. In Spokane the
12 increase in wholesale sales between 1954 and 1958 was
13 31 8/10ths per cent, greater by far than in Pierce
14 county, substantially more than in King county, and only
15 slightly less than in Macnoma county.

16 The data are similar for the city areas and
17 I take leave not to place that into the record, or to do
18 it subsequently to save time.

19 Q. Yes, that could be done.

20 A. At page 19 is the historical census data
21 on retail sales in Spokane county, and on the number of
22 retail outlets. I should like to read the immediately
23 following paragraph.

24 Again, the dollar volume declined markedly
25 after 1929 as the result of depression levels of busi-
26 ness activity and employment and falling consumer prices.
27 Since World War II, however, the annual volume of
28 retail sales in Spokane county has prevailed at levels
29 three to four times the 1939 level. Even adjusting
30 generously for the price inflation of recent years,



1
2 real annual retail sales would still prevail at levels
3 up to twice the 1929 and 1939 levels. Except for the
4 influence of alternative wartime and military employ-
5 ment during World War II, the number of retail outlets
6 has expanded slowly throughout the period. At the
7 same time, many individual department stores and chain
8 grocery stores have become much larger. The table
9 below that, I wish to summarize only. I think
10 it is obvious at a glance that for each of the census
11 years there given -- 1929 or 1930 through 1958 -- the
12 total volume of annual wholesale sales in Spokane city
13 -- and this leaves out the additional wholesale sales in
14 the rest of Spokane county -- are higher, and in some
15 areas it was higher than the total retail sales in
16 Spokane county including all the suburban area and
17 other towns in Spokane county. This could only be true
18 -- since wholesale prices are less than retail prices
19 unless somebody is making a loss.-- this could only be
20 true when the city or area involved has a rather large
21 wholesaling trade and wholesaling employment, and I
22 submit that this evidence shows this to be the case in
23 the city of Spokane. The normal relationship would be
24 the other way around.

25 The next several pages of the brief deal with
26 the growth of manufacturing -- from pages 20 through 27,
27 and I think I should summarize this material.

28 First, I looked around for studies, because
29 when you start making studies of factors in location
30 of industry you have got to put in a great deal of



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Nelson, dir
(Frawley)

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1
2 time, and more time than was available.

3 THE CHAIRMAN: I think you might summarize
4 it at three-thirty.

5
6 ---Luncheon adjournment.
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-- On resuming at 3:45 p.m. .

MR. FRAWLEY: Mr. Chairman, first of all I want to say that as a result of a long discussion with the reporters it seems that the most sensible thing to do is to offer this complete brief and have it marked as an exhibit, and then the testimony given by Dr. Nelson as it is given will appear in the transcript. Then, one will probably have to have the brief with him when he is reading the transcript of today's proceedings. When we discussed it, we considered all angles and we thought, first, that we could reproduce the brief and then begin Dr. Nelson's testimony. But, by reproducing the brief from beginning to end we found that the page references would be thrown out because, when Dr. Nelson will be saying "at page 10, I am going to read the following paragraph", it would be page 16,000 and something. So, it has been often done before, and I would suggest that we mark the brief as exhibit 160.

THE CHAIRMAN: Yes, that is satisfactory.

EXHIBIT 160:

Some Economic Effects of Limitation
of Long and Short Haul Discrimination
on the Intermountain Region of the
United States.

DIRECT EXAMINATION BY MR. FRAWLEY (resumed)

Q. I want to go back to page 15 of the brief and ask Dr. Nelson to make another comment on the table



1
2 at the top of page 15 because something was omitted
3 in his reviewing that table. You will see that if you
4 leave in the year 1959 you have a drop in Spokane's city
5 population from 191,000 to 179,000. And, now, Dr. Nelson,
6 will you explain that?

7 A. I am glad to make this correction. I
8 intended originally to make corrections prior to
9 testifying, and in order to save the Commission's time
10 I just passed over that without thinking of the problem
11 that would be created. But, as I wanted to correct this
12 part of the brief, on page 14, I would strike the
13 sentence from the word "together" through "1959", and
14 put the colon after the word "below".

15 Q. Beginning with the word "together"?

16 A. And put the colon right after the word
17 "below".

18 Q. Oh, I see.

19 A. And then, I would add in the sentence
20 above, after 1950, a comma.

21 Q. On the same page?

22 A. Yes, a comma, the word "and", and 1960
23 and a period.

24 COMMISSIONER MANN: Dr. Nelson, is that 1960
25 a census figure?

26 THE WITNESS: Yes.

27 COMMISSIONER MANN: It is not an estimate?

28 THE WITNESS: No, it is the last census. It
29 is a preliminary figure. It may be subject to a slight
30 change when the census comes out.



Nelson, dir.
(Frawley)

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1
2 On page 15, the table, I would strike "1959",
3 and all of the figures on the same line to the right.
4 Those four figures for 1959 -- 191,200, 29,479 and 18.2
5 percent,-- are estimates, and since we now have this 1960
6 census, preliminary figures, it is far more reliable to
7 use them than this estimate which turned out to be
8 rather high.

9 MR. FRAWLEY: Q. All right. Now, where were
10 you in going through your brief?

11 A. We stopped on page 20. I had made the
12 explanation that from 1920 to 1927, I had reported on
13 the growth of manufacturing in the Inland Empire and
14 in Spokane. The data are based upon a study made at
15 Washington State University by Margaret L. Schleef,
16 Manufacturing Trends in the Inland Empire, published
17 December, 1947. The more recent data appearing on
18 page 25 are from the U.S. census of manufactures for
19 those years.

20 Now, briefly, the table on page 21, taken
21 from MissSchleef's study, indicates a rapid growth
22 in the average number of wage earners, and in the
23 value of products and the value added by manufacturing
24 between 1900 and 1919; a continued but much slower
25 growth in all of those measures after 1919 through 1929.
26 And, then, in the depression years of the 1930's, a
27 decline in each of these; some part of the decline in
28 the value figures being lower prices.

29 Then, I go on to say, and I shall start
30 reading in the second full paragraph on page 21. of
the brief. The Inland Empire has developed a large



1
2 portion of its manufacturing from industries attracted
3 by its abundant raw material resources. Examples of
4 such industries which ship large proportions of their
5 products from the locality of production are lumbering,
6 nonferrous metal refining, flour milling, meat packing,
7 and fruit and vegetable processing. Collectively, those
8 industries accounted for more than half the manufacturing
9 employment in the Inland Empire during 1939. Lumbering,
10 metal refining, and fruit and vegetable processing
11 experience transport cost savings by processing weight-
12 losing materials near their source, and the perishability
13 of fruits and vegetables also attracts processing near
14 the source of such perishables. Freight rates influence
15 the extent of development in those basic industries as
16 the raw materials are available in other parts of the
17 country or the world.

18 The rapid growth in manufacturing between
19 1900 and 1919 shown above is explained by the initial
20 organization of raw material-oriented industries to use
21 the abundant natural resources found in the Inland
22 Empire during its pioneering period of development.

23 Plants serving the local needs of the Inland
24 Empire's own consumers and industries comprise the next
25 largest type of manufacturing in the Inland Empire. The
26 making of bakery goods, newspapers, dairy products,
27 bricks, and specialized machinery tends to be located
28 near the market centers, especially in or near Spokane.
29 These market-oriented industries were developed as
30 population and the primary materials-oriented industries



1
2 were developed as population and the primary materials-
3 oriented industries expanded in the Inland Empire. More
4 recently, relatively cheap Columbia River power has
5 attracted electrochemical and electrometallurgical
6 plants to the Inland Empire, including aluminum
7 reduction and rolling mills near Spokane and the
8 Hanford Engineering Works to produce plutonium.
9 Wartime influences thus diversified Inland Empire
10 manufacturing with power-oriented industries.

11 The Schleef study devoted a chapter to the
12 development of manufacturing in Spokane. According to
13 that source, the City of Spokane has drawn a larger
14 proportion of market-oriented industries than of
15 resource-oriented industries, although the trends in
16 the different types of manufacturing in Spokane were
17 found similar to those in the same industries throughout
18 the Inland Empire.

19 Now, the table at the bottom of the page,
20 page 23 of the brief, shows the steady increase of number
21 of wage earners in manufacturing in Spokane, except
22 after 1929, during the depression, and a similar
23 increase in the value of the products.

24 World War II both increased manufacturing
25 volume in Spokane and brought diversification. By
26 July, 1946, employment in manufacturing in that city
27 had increased by 34 percent over April, 1940. Food
28 manufacturing, nonferrous metal production, and
29 machinery production increased, while wood product
30 industries decreased employment during that period.



1
2 Since 1946, manufacturing employment has
3 continued to expand, with the pattern continuing the
4 wartime emphasis on the light metals industries and
5 with the fabrication of aluminum products increasing.

6 The next table presents the recent growth
7 from the census of manufacturers for 1939, 1947 and
8 1954. There are no more recent data, and I should like
9 to draw attention to the second part of the table, the
10 County of Spokane, since many of the manufacturing plants
11 are outside the city limits, and in the suburbs or
12 neighbouring small communities in and near Spokane.
13 You will notice a considerable increase in the number
14 of establishments for 1947, which continued through
15 1954, and a doubling in the average number of
16 production workers during the year as between 1939 and
17 1954.

18 The last estimate I have is not recorded in
19 the brief, but from my notes I have the estimate of
20 the Spokane Chamber of Commerce for 1959 that an
21 average of 13,623 persons were employed in manufacturing
22 in the Spokane County or Metropolitan area in 1959.

23 In its Monthly Review for December, 1956, the
24 Federal Reserve Bank of San Francisco, using Bureau of
25 the Census data, showed that the value added by
26 manufacturing between 1947 and 1954 rose almost 300
27 percent for the metropolitan area of San Diego; almost
28 150 percent, for the Los Angeles - Long Beach
29 metropolitan area; more than 72 percent for the
30 Seattle metropolitan area; slightly more than 60



1
2 percent for the San Francisco-Oakland metropolitan
3 area; and slightly more than 44 percent for the Portland,
4 Oregon, metropolitan area. The increase for the
5 metropolitan area of Spokane was not shown, but the
6 above data indicate that the value added by manufacture
7 in Spokane County rose by almost 89 percent between
8 1947 and 1954.

9 At the top of page 26 I showed that a very
10 large relative increase took place in Salt Lake City
11 and in Phoenix between those same dates, 1947 and 1954,
12 but I acknowledge that those increases were based on a
13 very small base.

14 Those data appear to indicate that Spokane
15 and other Intermountain cities have not been lagging
16 behind coastal locations in recent manufacturing growth,
17 except when comparison is made with the rapidly growing
18 southern California cities heavily influenced by the
19 military defence demand for transportation equipment,
20 especially aircraft, missiles, and related equipment.

21 The increasing emphasis on trade and the
22 service industries as a source of employment in
23 Spokane was significant in terms of the freight rate
24 problem presented historically by long and short haul
25 discrimination. Both wholesale and retail trade, as
26 explained above, tend especially to be retarded by rate
27 practices increasing the costs of goods sold at
28 interior communities or distributed from such cities as
29 compared with the Pacific coastal cities. It follows
30 that the removal of long and short haul discrimination
in 1918 must have stimulated the economic growth of



1
2 Spokane according to the pattern summarized above, for
3 rate parity permitted the wholesaling and jobbing
4 territories of Spokane to widen, made Spokane a more
5 attractive center for retail shopping, and the growing
6 population there subsequent to 1920, together with the
7 frequent shopping trips made by Inland Empire people
8 to Spokane after good roads were developed in the 1920's,
9 attracted the development of service industries,
10 including medical and hospital services in large volume.
11 As manufacturing in metropolitan Spokane has increased
12 considerably in recent decades, it is also likely that
13 rate parity with coastal cities also fostered
14 development in that area. Since rate parity can be
15 taken for granted by business men who locate plants at
16 Spokane, other locational factors can have their full
17 economic pull toward a location there without the net
18 advantages of a Spokane location being diminished by
19 artificial rate handicaps or by the costs and
20 uncertainties of rate negotiations and regulatory
21 proceedings. Moreover, the growth of Spokane's
22 population, stimulated by the encouragement which rate
23 parity has given to wholesaling, retailing, and related
24 activities, has provided larger local markets for both
25 old and new manufacturing enterprises at Spokane.

26 In section 3 I refer briefly to typical
27 testimony or abstracts of typical testimony that was
28 put in to the Interstate Commerce Commission in the
29 case transcontinental rates 46 ICC 236, decided in
30 1917. This and the subsequent case decided a few



1
2 months later adopted the rate parity policy that I have
3 referred to before.

4 Q. That citation is not in the text?

5 A. That citation is not there.

6 Q. What is it again?

7 A. It is transcontinental rates, 46 ICC 236
8 (1917).

9 I make this explanation so that the source of
10 the quotation will be known.

11 Now, the quotations were not taken from the
12 record on file with the Interstate Commerce Commission.
13 I did not have access to it. What I had access to was
14 a compilation of briefs which long ago the Spokane
15 Chamber of Commerce, or the Spokane Merchants'
16 Association, really, had put together and of which
17 only one copy, this one, that was loaned to me by the
18 General Manager of the Spokane Chamber of Commerce,
19 is now available, so far as I was able to find out.

20 THE CHAIRMAN: It would be authentic?

21 THE WITNESS: Yes, it is the actual brief.
22 There it is. There are the series of briefs in the
23 case that I told you about. In some cases, the brief
24 actually quoted from the transcript what the man
25 actually said. In the other cases, the writer of the
26 brief simply summarized what the man had said, but
27 referred to the pages in the official transcript of
28 the Interstate Commerce Commission where it can be
29 found.

30 I shall give only selected quotations here,



1
2 starting with that on page 28 of the brief from the
3 statement made by Mr. Roy R. Gill, at the time Vice-
4 President and Manager, Holly-Mason Hardware Company,
5 who testified on the effects of the long-short-haul
6 rate:

7 "....that if the rates were the same
8 to Spokane as to Seattle that he
9 would be able to distribute westward
10 approximately half way to Seattle,
11 whereas on account of the discrimination
12 he could distribute only 65 to 100
13 miles west of Spokane and Seattle
14 could distribute 300 to 350 miles
15 east bound, ..."

16 Continuing, on page 2489:

17 "...submitted some concrete cases
18 as follows: Car of steel from Gary,
19 Indiana, upon which he paid a rate of
20 \$1; coast rate from Gary, Indiana,
21 is 55¢; and on that particular car
22 he paid \$302.58 more than the Seattle
23 jobber would have to pay ..."

24 On page 2493, Mr. Gill stated the Holly-
25 Mason Hardware Company had been in business 35 years;
26 that if there had been no greater rate charged Spokane
27 than the coast in that time the business of Holly-
28 Mason Hardware Company would have been very much
29 greater.

30 The next quotation is from a statement made



1
2 by Mr. J.M. Fitzpatrick, at the time Manager of the
3 Union Iron Works in Spokane, a firm which is still
4 thriving in that city. He stated:

5 "...that he had been in business
6 eighteen years; that they carried
7 on a general foundry and machine
8 business, structural material,
9 manufacturing mining machinery and
10 saw-mill machinery; that the
11 discrimination curtailed their
12 territory. They have a half a
13 million dollars invested, have
14 available any amount of capital
15 they might desire for extensions.
16 On page 2508 gave some concrete
17 examples. First, showing a
18 shipment from Spokane to Wallace,
19 Idaho. Wallace, Idaho, is 140
20 miles east of Spokane and the rate
21 is the same from Seattle to Wallace
22 as from Spokane to Wallace. The
23 rate from Pittsburg to Seattle is
24 65¢; Seattle to Wallace 30¢, making
25 the delivered price 95¢. Pittsburg
26 to Spokane 95¢; Spokane to Wallace
27 29¢; or a total of \$1.24; difference
28 against Spokane 29¢."

29 On Page 30 of the brief I read the
30 following from Mr. Fitzpatrick's testimony:



1
2 "That because of discrimination very
3 few manufacturing plants in the
4 Inland Empire survive; that any
5 factory starting in the Inland Empire
6 must overcome the difference in rate;
7 and on page 2511, that the Union Iron
8 Works have been in business 25 years
9 and that if there had been no
10 discrimination the Union Iron Works
11 in that time should have been three
12 or four times larger than it is."

13 The next quotation is from Mr. W.K. Glenn.
14 He cited several examples of rates. On page 2520 of
15 the official transcript, Mr. Glenn:

16 "...replied to the question as to
17 what effect such a differential
18 had upon the growth of the Inland
19 Empire, and said: 'Why, I think
20 it is just as simple as can be.
21 In my mind, if an industry is
22 looking into a field with a view
23 of entering there, the first
24 question is, what are your taxes
25 out there? What are your freight
26 rates, and what is your labor
27 condition, etc? Unless all of
28 these conditions are favourable
29 they never come there, they go to
30 the other point, and it naturally



1
2 builds up the point where those
3 conditions are the most favourable."

4 On page 2521 Mr. Glenn testified that during
5 the thirteen years he ~~had been~~ there if the rate upon
6 materials handled by his company had been the same as
7 to the coast their organization at Spokane would have
8 been 50% larger than it now is.

9 The ~~next~~ quotation is from Mr. H.D. Trunkey,
10 McClintock-Trunkey Company, who testified concerning
11 the effects of long-and-short-haul discrimination
12 against Spokane on his wholesale grocery business in
13 that city.

14 On page 2525 of the official transcript, he
15 stated:

16 "...he had followed the Spokane rate
17 case more or less carefully for some
18 time, and continuing said that
19 discrimination between communities
20 is similar to discrimination between
21 individual shippers, that in his
22 opinion it retards the growth of the
23 community; and on page 2526 stated
24 that the principal competition of
25 the Spokane jobber was compelled to
26 do business near Spokane, not
27 allowed to reach out to the immense
28 distances the coast can, giving as
29 concrete example that on September
30 26th he received a car of canned fish



1
2 from Maine; he paid \$1.07 per
3 hundred, shipment weight 71,180
4 pounds, total freight; \$761.73.
5 If it had been shipped to the
6 coast, could would have paid
7 75¢ per hundred or \$533.92, or
8 an added tax to Spokane of
9 \$227.81."

10 Turning to the top of page 32 of the brief,
11 Mr. Trunkey also testified on the effects that he
12 expects would occur under the rate parity with Pacific
13 Coast communities. On page 2545 of the official
14 transcript he stated:

15 "...that the effect of the removal
16 of the discrimination would be to
17 enlarge his business, he could get
18 to points farther away from
19 Spokane, he would employ more
20 people in his institution, or in
21 some competitor's institution;
22 that this would be true of other
23 lines as well as his own, and
24 that our population would grow
25 under these conditions..."

26 I also refer in the middle of the next
27 paragraph to testimony by Mr. Fred S. Hall, Traffic
28 Manager of the Spokane Dry Goods Company, doing a
29 wholesale, retail and manufacturing business, in
30 which he testified that their manufacturing operations



1
2 were restricted compared with manufacturing operations
3 of the same kind on the coast. I wish to mention
4 this because I want to refer to what has happened to
5 the Spokane Dry Goods Company's wholesale operation
6 later in the brief.

7 The next three pages, pages 33-35 of the
8 brief, deal with similar testimonies taken from a
9 brief submitted by the Utah Bureau of Traffic in this
10 same case. I will not read this, but rather merely
11 summarize the point.

12 Mr. S.H. Love, Traffic Manager of the Zion's
13 Co-operative Mercantile Institution, Salt Lake City,
14 testified in detail here that his salesmen found it
15 difficult if not impossible, to market to Winnemucca,
16 Nevada, which is about half-way between Salt Lake City
17 and San Francisco. The reason they found this
18 difficulty is that the rates, landed cost, on articles
19 at San Francisco and Salt Lake City purchased in the
20 East and Mid-West for distribution was less in
21 San Francisco, enabling San Francisco jobbers and
22 manufacturers to reach almost to the Utah border,
23 and thereby greatly restricting the marketing
24 territory for his concern.

25 On page 35 of the brief, I read Mr. M.H.
26 Sowles' testimony. He was secretary of the Salt
27 Lake Hardware Company, a firm doing a general
28 hardware jobbing business. He stated:

29 "We can compete as far west as
30 Wells, Nevada; beyond that point



1
2 competition is extremely hard.

3 One of our travelling salesmen
4 makes his home at Elko, Nevada,
5 but he does not get much
6 business at that point for us.

7 The principal competition is
8 with the San Francisco houses."

9 "We obtain our goods from the
10 same houses generally as the San
11 Francisco jobbers and I think
12 we buy them just as cheap as
13 anyone. We certainly should
14 meet the San Francisco jobbers
15 at the half-way point."

16 Elko and Wells are not more than a third
17 of the distance into Nevada from Utah and therefore
18 not very far from Salt Lake City.

19 The next case is on page 36 and 37 of the
20 brief and it is testimony from the brief put in by
21 the Fresno interests, and Mr. Hill was asking Mr.
22 Peterson, a person who had established a wholesale
23 grocery concern in Fresno what effect the freight
24 discrimination applying to Fresno compared with
25 coastal California cities had, and he said that he
26 started this business prior to the beginning of the
27 relief from this fourth section discrimination or
28 long-and-short-haul discrimination, but that he had
29 anticipated that this relief was coming and that it
30 had enabled him, when it did start in 1911 -- that



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2 decision reached in that year enabled him to widen his
3 market, and that if it had not existed he could have
4 still stayed in business, but he would have to do
5 business almost entirely in the city of Fresno and
6 immediately surrounding territory.
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2 On page 37 are data which was put into the
3 record indicating some growth that occurred after the
4 1911 decision which did not fully remove the discrimina-
5 tion against Fresno but did lessen it or limit it. You
6 will notice there there is the growth from 1909 to
7 1910 which is just before the decision of the ICC
8 lessening the discrimination and then 1914, two or
9 three years afterwards and before World War I began
10 to influence the growth of that economy.

11 The brief submitted in that case by Frank M.
12 Mill, Manager, Fresno Traffic Association, reached the
13 following conclusion:

14 "In considering these figures it must be
15 done in connection with the progress of
16 this Fourth Section case on which the
17 first hearing was held in March, 1911.
18 The result of the various hearings has
19 in each instance bettered our transcon-
20 tinental rate adjustment, and this has
21 been an extremely important factor in
22 bringing about these results, and it is
23 convincing and conclusive evidence that
24 as rate adjustments are improved and dis-
25 criminations removed business is encouraged
26 and can and does grow. The logical con-
27 clusion to be reached, then, is, if the
28 rate discriminations were fully removed
29 and we were placed on a parity with points
30 that are favoured with better rates a



1
2 period of greater business development
3 and growth would ensue."

4 In conclusion the summaries of testimony and the actual
5 testimony quoted above from the official transcript of
6 record in ICC Fourth Section Cases just before rate
7 parity was established in 1918 provide concrete evidence
8 of the retarding effects of long and short haul discrimi-
9 nation on the economic growth of Spokane and other
10 intermountain cities.

11 Now, Section 4 presents evidence from a
12 recent study done at Washington State University of
13 the Spokane wholesale market and from my own letters of
14 inquiry and interviews with leading senior Spokane
15 businessmen, some of whom actually testified -- one of
16 whom at least testified in a case before 1918 and is
17 still in business and still sharp minded and remembers
18 all that happened during that time.

19 In the first two paragraphs I merely summarize
20 the growth that the data showed in paragraph 2 and I
21 need not refer to that again.

22 Then I explain on the top of page 39 of the
23 brief how we went about getting this information. I
24 went to the Spokane Review, the leading newspaper or
25 the only newspaper because they own the Spokane Chronicle
26 in Spokane, and sought his knowledge about this matter
27 of the effects of removal of the long-short haul
28 discrimination. After I got a list of these men I
29 directed letters to them to inquire as to the facts.
30 As I said, I got other information from the study on the



1
2 Spokane wholesale market published by Washington State
3 University by Professors Tousley and Lanzillotti and
4 published in November 1951. I would like to explain
5 Professor Tousley is Professor of Business Administration
6 and Chairman of the Department of Business Administration
7 and Professor Lanzillotti is an economist of considerable
8 reputation.

9 THE CHAIRMAN: In the University of Washing-
10 ton?

11 THE WITNESS: No, Washington State University,
12 my own university. The only recent data available
13 for these men when they did their study was the 1948
14 census of distribution, and so the trade data came
15 chiefly from that. Their comparisons are between 1939
16 and 1948. The wholesaling operations of manu-
17 facturers were not included in that study except in a
18 few industries such as meatpacking, in which wholesaling
19 is dominated by the manufacturer or processor rather
20 than the merchant middleman. The industries included
21 comprised at least 70 per cent of Spokane's wholesale
22 volume. The census data were supplemented by ques-
23 tionnaires to about 400 firms considered possibly to
24 be wholesalers and by more than 100 personal interviews
25 distributed representatively over all wholesalers at
26 Spokane. Overall response to questionnaires was
27 50 per cent and for the major wholesalers in Spokane
28 the returns "amounted in many lines to 80 or 90 per
29 cent." Each firm was requested to draw on a Pacific
30 Northwest map attached to the questionnaire "the territory



1
2 which it served regularly," that is, the area regularly
3 covered by salesmen. Comparisons of trends in the
4 numbers of establishments and sales volume were made
5 with Seattle, the State of Washington, and the United
6 States; and much information was obtained on the
7 distributing territories of Spokane, Seattle, Portland,
8 and the local wholesalers.

9 The rapid growth of Spokane as a wholesale
10 market is indicated by Table 2, on page 14 of the
11 Tousley-Lanzillotti study. A copy of that table appears
12 on page 41 of the brief.

13 Of pertinence here were the conclusions reached
14 by the authors concerning the relatively greater growth
15 of wholesale volume in Spokane than in Seattle, the
16 State of Washington, and the United States as a whole,
17 as follows:

18 "The fact that Spokane is a rapidly growing
19 wholesale market, for virtually all types
20 of wholesalers, is shown by the increase
21 in sales volume that took place between 1939
22 and 1942. During this period Spokane's
23 wholesalers had a sales increase amounting
24 to 298 per cent, compared to 223 per cent
25 for Seattle, 244 per cent for the State
26 of Washington, and 241 per cent for the
27 United States."

28 In examining the reasons for the
29 comparatively rapid growth of Spokane as a wholesaling
30 centre during 1939-1948, the authors of the Spokane



1
2 Wholesale Market did not make specific comparisons with
3 growth trends before rate parity with Pacific coastal
4 centres was established in 1918 or with the trends
5 for the two decades just after the achievement of
6 rate parity. Instead, it appears that the underlying
7 role of equalized rail freight rates from eastern and
8 midwestern centres was taken for granted in that study,
9 as the authors showed awareness that gross long and
10 short haul rate discrimination had been removed long
11 before and that equal rates permitted other factors to
12 work themselves out in a normal manner and without the
13 drag of higher freight costs.

14 "It is possible that some part of the
15 expansion, although not necessarily the
16 major part, is to be found in Spokane's
17 growth in general industrial and business
18 activity. In this area, Spokane again
19 appears to have had an above average gain.
20 For example, between 1939 and 1947, value
21 added by manufacture increased for Spokane
22 county by 281 per cent, for King county
23 (Seattle) by 217 per cent, for the State
24 of Washington by 226 per cent, and for the
25 United States by 204 per cent."

26 -
27
28
29 -
30



1
2 Then in some of these paragraphs they found
3 that population growth was partly the reason why
4 wholesaling had increased at a relatively rapid rate
5 in Spokane. However, they said this alone would not
6 explain the more rapid growth as compared with these
7 other two areas, that is Seattle and the United States.

8 Then they mention the subject of income as
9 a possible factor and they point out they could not
10 conclude anything on this because the income data were
11 not available on geographical breakdowns to make it
12 possible. Then they take up the subject of whether
13 there had been a change in the channels of distribution
14 which might have affected the result.

15 In the next to last paragraph on page 43 they
16 indicate that as Spokane had become sufficiently im-
17 portant in size and market to justify firms putting in
18 branch and regional branches of wholesalers that there
19 was a shift in sales from Seattle to Spokane and this
20 did contribute, in part, to the above average growth.

21 In the last paragraph they say:

22 "Two things appear to be important in
23 explaining the growth: (1) the above
24 average increase in manufacturing and
25 business activity, and (2) the decen-
26 tralization of wholesale establishments
27 to Spokane from the larger cities of the
28 Pacific northwest and especially from
29 Seattle."

30 The Tousley-Lanzillotti study delineated on Pacific



1
2 Northwest maps typical wholesaling territories that
3 had been established by about twenty different wholesale
4 trades in Spokane. As noted above, these distributing
5 territories were based on questionnaire returns and
6 information obtained from personal interviews in 1949.

7 Now, the territory for Spokane is shown on the
8 map which is Figure 23 on page 44 of the brief. You
9 will note it extends at least halfway to Seattle and to
10 the Rocky Mountains and away down into Idaho and north-
11 eastern Oregon and to the Canadian border. You will
12 see that it is a relatively large territory.

13 The basis for this territory was that whole-
14 salers were asked to show on the map the places where they
15 regularly sent salesmen or kept salesmen and whether
16 their sales were more than a negligible part of the
17 market.

18 THE CHAIRMAN: That is what we call the
19 inland combine.

20 THE WITNESS: There are various names.

21 Then, on page 45 of the brief they say:

22 "The Spokane wholesale market is the second
23 largest market in the State of Washington
24 with respect to sales volume, although
25 considerably smaller than Seattle. From
26 the standpoint of territory covered, it is
27 apparently the largest market in the state.
28 In fact, Spokane wholesalers cover por-
29 tions of three states in their regular
30 trading area, and in some wholesale lines



1
2 parts of four or more states are
3 regularly served. In most lines
4 Spokane firms cover distances of at
5 least 100 miles in all directions and
6 up to 200 miles or more in some directions."

7 Then in the paragraphs which follow I
8 summarize the facts from their report, the Tousley-
9 Lanzillotti report indicating the industries that have
10 a larger than average, the average and less than the
11 average. Since I want to give the reasons for this
12 I will indicate the industries and the reasons by
13 referring to the quoted material on page 46.

14 The significance of transport cost (in terms of the
15 ratio of the rate or other transport cost to the price
16 of the product) was greatly emphasized. Branch opera-
17 tions, franchise agreements and local wholesale com-
18 petition were also mentioned as other factors in size of
19 distributing territories, but, as will be noted below the
20 ratio of transport cost to the value of the product
21 was treated as a key factor:

22 "Transportation Cost and Local
23 Competition. The six industries
24 (groceries,, meats, dairy and poultry
25 products, fresh fruits and vegetables,
26 beer and wines, and farm supplies)
27 which serve the smallest territory have
28 two characteristics in common which
29 appear to a large extent to account for
30 the smaller size of their trading areas.



1
2 The first is that the cost of transporta-
3 tion for the products handled is large in
4 relation to the value of the product.
5 The second, which partially results from
6 the first, is that local wholesalers are
7 very important in the smaller and medium-
8 sized communities. Thus, a Spokane whole-
9 saler in one of these industries finds the
10 cost too high and the competition too great
11 once he moves out of a relatively re-
12 stricted market areas.

13 "The five wholesaling lines (drygoods
14 and apparel, amusement and sporting goods,
15 jewelry, coal, and general-line drugs)
16 that cover the largest territories also
17 seem to have common characteristics which
18 permit products to be sold over an un-
19 usually large territory. First and most
20 important, the cost of transportation is
21 a relatively unimportant factor. . .

22 "The factors which influence the size
23 of territory for the industries covering
24 the average area are not so uniform as was
25 true for the other two classifications.
26 An exception to this statement is the
27 factor of transportation cost which is
28 an important element of total cost.
29 Probably for most of these industries, it
30 does not constitute so large a proportion



1
2 of the total value of the product as is
3 true for the food products lines. Accord-
4 ingly, a somewhat larger area is served."

5 COMMISSIONER MANN: Dr. Nelson, I have
6 a little difficulty with part of this quotation. I
7 notice that among the industries that serve small
8 territories are wines, and one of the reasons there
9 that is shown is that the cost of transportation of the
10 products handled are in relation to the value of the
11 product. That is part one of my little diffi-
12 culty.

13 Then, in the next paragraph where you talk
14 about the high wholesaling lines I notice that coal is
15 shown and that covers the largest territory and there
16 it is stated:

17 "First and most important, the cost of
18 transportation is a relatively unimportant
19 factor."

20 Now, I have always been one to believe that on coal
21 certainly the cost of transportation is very important
22 and I would think for wine the cost of transportation
23 is relatively less important. Is there an explanation
24 for that?

25 THE WITNESS: May I read the sentence I
26 eliminated on coal?

27 "Although coal is an exception, this is
28 not important in the determination of the
29 size of a trading area, because coal is
30 drop-shipped directly from the mine to the



1
2 retailer or the user without any handling
3 by the wholesaler."

4 That is the situation. The answer to your other
5 question is given on page 47 of the brief in the first
6 paragraph where I say the freight drop to which
7 Tousley and Lanzillottie primarily referred was the
8 l.c.l. or l.t.l. rates apply on local shipments east-
9 ward from Seattle and Portland to interior distributing
10 territory and westward from Spokane to the same
11 territory. They found that cost conditions, especial-
12 ly the l.c.l. or l.t.l. rates, establish a rather
13 definite boundary line between the Spokane wholesalers
14 and those of the coast cities. They discovered that
15 most of the wholesaling industries regarded Wenatchee
16 and Pasco-Kennewick as the rate-breaking points --
17 well, I will not go on. The answer is they were not
18 meaning the value of the local freight rate to the
19 whole value per ton of the commodity, they were really
20 meaning the value of the freight rate to the margin
21 that the wholesaler pays in there, which is a very
22 different proposition. Here, because the margin
23 is much less than the value of the total thing he
24 would put high valued commodities then low valued
25 commodities and the effect they claim still obtains.
26 In other words, you buy your commodities at the same
27 price whether you are in Seattle or Spokane but
28 Seattle gets a significant reduction in the landed
29 cost, therefore it is the cost of distribution. The
30 wholesale margin is less and because it is less they



1
2 can push further eastward to get to the point of equal
3 cost.

4 The reason I put this in here, it is not
5 directly a point, but to indicate that these two
6 gentlemen, one of them a well known scholar in the
7 field without any interest whatsoever in freight rate
8 cases or issues of transportation certainly attaches
9 a considerable importance to transportation rates and
10 differences in transportation rates, and that is the
11 reason I wanted to refer to this part of their material.

12 Then, on page 47 of the brief:

13 "Even though the Tousey-Lanzillotti survey
14 took for granted the parity of freight rates
15 obtained in 1918, the study makes it
16 abundantly clear that the large geographical
17 markets currently available to Spokane
18 wholesalers were developed without the handi-
19 cap of general long-and-short-haul dis-
20 crimination such as had blighted development
21 previous to 1918.

22 "With respect to rail shipments of
23 merchandise from the eastern and mid-
24 western United States, group rates normally
25 prevail, and both Spokane and the coast
26 cities will have the same landed cost.
27 Prior to World War II, however, coast whole-
28 salers utilized water transportation to a
29 considerable extent, especially on bulky
30 merchandise, and thus were in a position



1
2 to obtain lower freight rates and a lower
3 landed cost. During the 1940's, coast
4 wholesalers had to shift to rail carriers
5 because of the lack of availability of
6 water transportation. Undoubtedly, this
7 has aided Spokane firms a great deal by
8 eliminating the normal coast advantage.
9 Should water transportation again be avail-
10 able on a wide scale at a relatively low
11 cost, several of Spokane's wholesale indus-
12 tries would be under a substantial handi-
13 cap."

14 Now, this was put in, I selected this to quote because
15 they showed what I said earlier, that although they did
16 not make an inquiry into the effect of transportation
17 arrangements they found in order to explain what had
18 happened in Spokane related to these other cities
19 that transportation was a factor of some moment.

20 Now, the next section from the Tousely-
21 Lanzillotti study quotes from the responses that I
22 received from senior Spokane businessmen as to the
23 facts on the removal of long and short haul discrimina-
24 tion since around 1918. The questions I asked are
25 stated among others on page 48 of the brief at the
26 bottom:

27 "Each person addressed was informed that
28 the purpose of the inquiry was 'to estab-
29 lish reliably whether Spokane's success
30 in 1918 in eliminating rate discrimination



1
2 against Spokane had the effect of en-
3 larging the Spokane wholesale distribution
4 area.' Each was queried as to whether
5 his firm's 'area of distribution has ex-
6 panded since 1918' and, if it had expanded,
7 'would you attribute that fact to the ending
8 of rate discrimination.'"

9 That was so they would have something before them be-
10 cause you cannot expect businessmen to do a lot of
11 research and yet I wanted them to give attention to
12 this problem.

13 The first person I quote from is Alvin L.
14 Jensen, and his company was the former Holly-Mason
15 Hardware Company. Their area of distribution had
16 been limited prior to 1918 and you will remember their
17 earlier testimony.

18 Figure 17 from the study is on page 48 of the
19 brief, and you will see the wholesale territory is
20 indeed a very large one, larger than the average
21 territory shown earlier. I think I should read
22 some of Mr. Jensen's letter which is dated February
23 17, 1960:

24 "Without the ending of rate discrimination
25 we would not have been able to expand as we
26 must have comparable rates with the coast
27 to be in a favourable competitive position.

28 "Prior to 1918 our distribution was
29 to Libby, Montana on the east, Pasco on
30 the west, Lewiston Grangeville on the south



1
2 and the Canadian border to the north.
3 I can best give you our present area of
4 distribution by giving you the location
5 of our travelling representatives. The
6 place of residence is centrally located
7 for the area they contact. In 1918
8 we travelled 7 salesmen -- we now have
9 43 located as follows:"

10 and he lists the locations:

11 "While I do not have exact data here (Palm
12 Desert, California) with me, I have been
13 closely connected with the company since
14 prior to 1918 and would say we had around
15 85 employees in 1918 and 275 during 1959.

16 "While we have a small warehouse in
17 Walla Walla, practically all of our ship-
18 ments come out of our Spokane plant.

19 "To summarize: if we did not have
20 favourable rates we could not be able
21 to compete with the coast on the west, or
22 St. Paul-Duluth on the east, would be
23 practically out of business or operating
24 in a very small way."

25 The next quotation is from Mr. Franklin F. Trunkey,
26 the son of the Trunkey of McIntock-Trunkey Wholesale
27 Grocers, whose testimony in 1918 I earlier quoted.
28 Mr. Franklin Trunkey stated as follows:

29 "To give you a little background
30 of my experience, my father came to



1
2 Spokane in 1898 and went into the whole-
3 sale grocery business at that time in
4 Spokane. The writer completed his college
5 education in 1926 and went to work for
6 McClintock-Trunkey Wholesale Grocers in
7 July of that year. I remained in the
8 wholesale grocery business until December
9 1953.

10 "At that time I first went to work in the
11 wholesale grocery business we went out as
12 far as Connell to the southwest, to
13 Uniontown, Washington and Troy, Idaho to
14 the south, and as far as Libby and Thompson
15 Falls in Montana, and to the Canadian border
16 north. Today the wholesale grocers are
17 going as far as Grangeville, Idaho to the
18 south, to Walla Walla and the Tri-City area
19 southwest, to Kalispell and to some extent
20 as far as Great Falls, Montana. In other
21 words, the territory has been expanded.
22 It has been somewhat of a gradual process
23 and I am sure that there are other factors
24 than the elimination of rate discrimination
25 which affected the expansion of the Spokane
26 market. However, in my opinion such
27 expansion would not have taken place had we
28 not been able to eliminate that rate dis-
29 crimination."
30



1
2 The next quotation is from a statement by
3 Mr. Chester L. Seeley of John W. Graham Company and
4 it appears on page 53 of the brief. They are whole-
5 sale paper dealers, as well as retailers, of paper
6 products and various related products in Spokane.

7 Mr. Seeley stated in his letter dated
8 February 8th, 1960:

9 "Basically, I am sure that it can be proven
10 without question, that the elimination of
11 the rate discrimination in 1918 resulted
12 in an expansion of the wholesale area served
13 by Spokane distributors. At that time all
14 shipments of necessity moved by rail and
15 with Spokane being charged the rate from
16 the east to Seattle plus a rate back to
17 Spokane, it meant that Seattle distributors
18 had a price advantage on any sales made
19 to any location west of Spokane. Even
20 on shipments east of Spokane, the Seattle
21 distributor could still ship to such points
22 without any higher rail costs than a
23 similar distributor in Spokane. In
24 addition, Seattle distributors had the
25 advantage of lower freight costs on ship-
26 ments from eastern suppliers when this
27 merchandise moved by water. This cheaper
28 shipping cost by water of course was the
29 primary reason for keeping the rail cost
30 to Seattle at a low point.



1
2 "During the period after 1918 the
3 wholesale territory of John W. Graham Company
4 increased until during the late thirties.
5 In fact, during this period our wholesale
6 area included Wenatchee, Ellensburg, Yakima,
7 Pasco, Walla Walla, Lewiston, Idaho,
8 Grangeville, Missoula and all of the areas
9 between these locations. The area north
10 of Wenatchee was a very productive area
11 as well as all of the area north of Spokane
12 in Washington, Northern Idaho and Western
13 Montana. In addition, many of the counties
14 in eastern Oregon were also within the sphere
15 of our Spokane distribution.

16 "Naturally, it is always difficult to
17 say that expansion of area is caused by any
18 single thing. In my opinion, there is no
19 doubt however, that this area's wholesale
20 distribution could not have been built nor
21 maintained without the elimination of the
22 rate discrimination in regard to rail ship-
23 ments."

24 Similar statements are made by Mr. E. H. Braden,
25 President of the Spokane Paper and Stationery Company,
26 and on page 55 of the brief you see the very wide
27 distribution territory for the Spokane paper whole-
28 salers from the Tousley-Lanzillotti study.

29 Then I would like to briefly refer to the
30 Spokane Drygoods Company which was originally a very



1
2 large merchant wholesaler in Spokane. As many of
3 you may know, they own and operate the Crescent Store,
4 the largest retail department store in Spokane, and
5 Mr. Riggin, the sales promotion manager, who answered
6 my letters, stated that they had gone out of the
7 wholesaling business after it had prospered in the
8 period up to 1933 and particularly after 1918, as I
9 understand him, but that this was due to chain stores
10 and good roads, and that recently they had returned to
11 the wholesale business in the field of motel, hotel
12 and institutional furnishings and equipment.

13 "Since this is a comparatively recent
14 activity, I would have no basis for
15 comparisons. However, the territory
16 we serve in this operation is larger
17 than our old wholesale, for we have
18 made important installations in Seattle,
19 Ogden, Utah, and Billings, Montana. I
20 am certain we could not do this sort of
21 business except with non-discriminatory
22 freight rates."

23 Then on page 57 of the brief he states:

24 "The selling of institutional furnishings
25 began about ten years ago. The reason
26 we can serve a wider territory than we
27 could in the wholesale merchandising
28 business is that the furniture, rugs,
29 etc., that we sell are shipped direct
30 from the factory to the point of installation,



1
2 and no matter what agency gets the job,
3 the freight costs are the same, since
4 most of the suppliers are in mid-west or
5 California points. Thus all bidders
6 are on the same basis so far as freight
7 costs are concerned."

8 The last one I will refer to is the testimony of Mr.
9 Edward H. Hughes, appearing on pages 58 and 59 of the
10 brief. Mr. Hughes is a wholesaler of plumbing and
11 heating. That word in the brief "hearing" should
12 be "heating". Mr. Hughes is a wholesaler of plumbing,
13 heating, sheet metal and waterworks supplies. Mr.
14 Hughes actually participated in the earlier case and
15 so his statements are statements of a man who knows the
16 whole period at first hand. On page 59 I quote from
17 him as follows:

18 "Regarding the freight rates which pre-
19 vailed prior to 1918, our territory was
20 then limited by those rates to Wilson
21 Creek on the Great Northern, Ritzville
22 on the Northern Pacific, and south as
23 far as Lewiston, Idaho. When rate
24 parity with Portland and Seattle went
25 into effect, our territory was extended
26 as far as Wenatchee on the Great Northern,
27 Pasco on the Northern Pacific, and south
28 as far as Walla Walla. Our business
29 volume was substantially increased
30 due to the extended territory which was



1
2 made possible entirely by the favourable
3 freight rates which were put into effect
4 after 1918."

5 THE CHAIRMAN: Mr. Frawley, I am
6 wondering about tomorrow: have you another witness
7 ready after Dr. Nelson?

8 MR. FRAWLEY: Oh, no, no. Monday morning
9 will be the next witness.

10 THE CHAIRMAN: How much longer will the
11 cross-examination take? Have you any cross-examination,
12 Mr. Brazier?

13 MR. BRAZIER: No.

14 THE CHAIRMAN: Mr. Mauro?

15 MR. MAURO: No.

16 THE CHAIRMAN: Mr. Sinclair?

17 MR. SINCLAIR: I have one point that I wish
18 to discuss with Dr. Nelson.

19 THE CHAIRMAN: Mr. McDonald?

20 MR. McDONALD: I haven't anything, Mr.
21 Chairman.

22 THE CHAIRMAN: Well, I think we might as
23 well adjourn until tomorrow morning.

24
25 ---Adjournment.
26
27
28
29
30

John G. F. Baker, Esq.

ROYAL COMMISSION

ON

TRANSPORTATION

HEARINGS

HELD AT

OTTAWA

VOLUME No.:

100

DATE:

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ROYAL COMMISSION ON TRANSPORTATION

Proceedings of hearings held
in the Court Room, Board of
Transport Commissioners
Offices, Ottawa, Ontario, on
the 14th day of October, 1960.

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Ottawa, Ontario,
Friday,
October 14, 1960.

-- On commencing at 10:00 a.m.

THE CHAIRMAN: Order, please.

MR. FRAWLEY: Before Dr. Nelson resumes, Mr. Chairman, yesterday at page 16768 I had produced to the witness, Dr. Harries, exhibit 8 in what is known as the cast iron pipe agreed charge case and I intended to say that I would have that reproduced and have it filed as an exhibit. I now have it reproduced and I would offer as an exhibit the document that was exhibit 8 filed by the Canadian Pacific Railway Company in that case. That will be exhibit No. 161.

EXHIBIT NO. 161: Statement showing the relation between proposed revenues and out of pocket costs and proposed revenues and all inclusive costs for the movement of cast iron pipe and fittings in car-load lots from Trois Riviere to Vancouver, and from Toronto to Vancouver and from Trois Rivières to Port Arthur.

MR. FRAWLEY: I have given Mr. LaFrance quite a few copies of it.

JAMES C. NELSON resumed

DIRECT EXAMINATION BY MR. FRAWLEY: Q. Now, Dr. Nelson, last evening before the adjournment you had reached page 59 of your submission, and would you proceed now to complete the presentation of the submission?



1
2 A. Yes, sir. At the conclusion of the
3 proceeding yesterday I had completed reading the
4 testimony or the information supplied me by Mr. Edward
5 H. Hughes, President of Hughes & Co., a wholesaler of
6 plumbing, heating, sheet metal and waterworks supplies
7 in Spokane. The map on page 60 of the brief, being
8 figure 18 of the Tousley-Lanzillotti study indicates the
9 large wholesaling territory of that group of wholesalers
10 as of 1949. It seems to confirm the statements made by
11 Mr. Hughes.

12 Now, in addition to enquiries of wholesalers
13 I also sought information from senior bankers. One such
14 person was Mr. W. T. Triplett, Chairman of the
15 Administrative and Management Committee of the Spokane
16 and Eastern Branch of the Seattle First National Bank,
17 whose personal experience in Spokane was from 1907 up
18 to and including the present time, since he is still
19 living.

20 Mr. Triplett's letter of February 8, 1960 and
21 starting with the second full paragraph on page 62, I
22 would like to read from Mr. Triplett's letter:

23 "The removal of the freight rate
24 restriction, however, helped
25 Spokane in another way. It
26 enabled her retail merchants to
27 replenish their stocks at
28 lower costs and thereby put
29 themselves in a position to
30 compete with Seattle and Portland



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(Frawley)

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1
2 on an even footing. Spokane is
3 a great big trading post for a
4 territory with a radius of 150
5 miles.

6 With the coming of well paved
7 highways leading into the city
8 from every direction, people by
9 the thousands soon began to
10 realize this, and came to
11 Spokane in such numbers to shop
12 that the trading post grew and
13 prospered. This soon caught the
14 eyes of Eastern and Southern
15 merchants who became eager to
16 capitalize on the business which
17 was flowing in. As a result,
18 many firms such as Allied Stores,
19 Penney's, Sears & Roebuck,
20 Montgomery & Ward, Newberrys, and
21 International Harvester came here
22 in a large way, to say nothing of
23 thirty or forty smaller ones.

24 The competition among these
25 stores gave the people of the
26 community, merchandise equal to
27 any to be found in other West
28 Coast cities. This increase in
29 patronage resulted in a change in
30 other ways, such as Spokane becoming



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1
2 a great medical and hospital center.

3 Our three hospitals have spent many
4 millions of dollars enlarging and
5 modernizing their plants and a large
6 number of the best medical specialists
7 in the country naturally followed and
8 settled here."

9 And I am happy to say that I discovered
10 yesterday that Mr. Sinclair's brother is in the medical
11 profession in Spokane.

12 "I cannot say that all of this is
13 the result of lower freight rates
14 because I know it is not, but I can
15 say without reserve that it
16 stimulated activity and growth to
17 such an extent that we are no
18 longer crying about freight rates
19 as long as we can keep them where
20 they are.

21 In the next section I comment on the influence
22 of rate parity upon three of the larger and more
23 significant manufacturing plants in the areas of
24 Spokane --that is, including the suburban areas of
25 Spokane -- namely, the Union Iron Works, the Columbia
26 Electric and Manufacturing Company and Kaiser Aluminum
27 & Chemical Corporation.

28 The Union Iron Works, a Washington Corporation,
29 was founded in Spokane in 1888. It began as a small
30 foundry, principally serving the mining industries of



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1
2 the Coeur d'Alene District of North Idaho. This firm
3 early expanded into machine shop work, manufacturing
4 large quantities of mining and sawmill equipment. It
5 became the repair shop for the heavy industry that
6 developed in the Inland Empire. During Spokane's
7 early growth, the Union Iron Works cast many of the
8 columns and store fronts for downtown buildings in
9 Spokane. With electric arc welding, the Union Iron
10 Works has fabricated the structural steel for many
11 modern buildings and stores in Spokane and at other
12 locations, such as for many sawmills in Oregon,
13 Washington, Idaho, and Montana. This firm also
14 fabricates steel plate and sheet; designing, laying-
15 out and fabricating complicated flues, penstocks, and
16 steel tanks of various sizes and descriptions. With
17 increased use of concrete in construction, the Union
18 Iron Works' fabrication of reinforcing steel has grown
19 rapidly since World War II. Reinforcing steel has been
20 supplied for construction jobs throughout the Inland
21 Empire, including for large buildings and bridges. The
22 company continues to manufacture mining and milling
23 machinery for the lead, zinc, and copper mines of
24 western Montana, the Coeur d'Alenes, and Metaline Falls,
25 and to make improved machinery for the processing of
26 wood products. The Union Iron Works now operates a
27 much expanded modern foundry, equipped with a new
28 Whiting Electric Furnace, for casting grey iron in both
29 standard grades and alloys and steels in carbon and
30 alloys, including manganese and stainless types, and it



1
2 currently has an overall shop area under roof of
3 125,000 square feet.

4 Mention was made above of the testimony of
5 J.M. Fitzpatrick, manager of the Union Iron Works
6 during the period just before rate parity was
7 established in 1918. Mr. Fitzpatrick expressed the
8 opinion "that if there had been no discrimination the
9 Union Iron Works in ... (its first 25 years) should
10 have been three or four times larger than it is."

11 According to Mr. C.O. Bergan, long time traffic manager
12 for the Spokane Merchants' Association but now retired
13 from that service, the effects of the rate parity
14 obtained for Intermountain cities in 1918 on the
15 business of Union Iron Works were as follows:

16 "Prior to the time, said he, that
17 Spokane rates were to the level of
18 the coast rates, the rates on steel
19 products, as near as I can remember,
20 for example from Pittsburg to Seattle
21 were 75¢, and the rate from Pittsburg
22 to Spokane was in the neighbourhood
23 of \$1.20 from which it is obvious
24 that the Pacific Coast dealer in
25 steel could sell the steel in Spokane and
26 and surrounding territories as cheap or cheaper
27 than could the Spokane dealer. The one big
28 contributing factor to the ability
29 of the Union Iron Works of Spokane
30 to branch out, came about when
Spokane finally obtained Pacific



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Nelson, dir.
(Frawley)

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2 Coast Terminal rates and
3 fabrication in transit privileges
4 were extended to Spokane and it
5 becomes apparent with fabrication
6 in transit privileges at Spokane
7 the Spokane Fabricator, like the
8 Union Iron Works could bring the
9 product into Spokane and then
10 fabricate the steel into any use
11 and ship at the balance of the
12 thru rate from point of origin
13 to any point on the Pacific Coast
14 at a thru combined cost as low or
15 lower than the Coast Fabricators.

16 Under this arrangement, I
17 recall of instances where the
18 Spokane Fabricators, like the
19 Union Iron Works, was enabled to
20 ship to Spokane their fabricate
21 and put the finished article into
22 Pacific Coast cities as far south
23 as central California.

24 The beneficial effects of elimination of
25 long-and-short-haul discrimination and the attainment
26 of fabrication-in-transit privileges upon the Union
27 Iron Works were also confirmed by Mr. W.D. Roberts,
28 President of Union Iron Works, as follows:

29 "As you know, under the original
30 long and short haul clause, it



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1
2 was almost impossible for any
3 manufacturer or distributor in
4 Spokane to market his goods west
5 of the city limits. This, as
6 you might well imagine, stifled
7 business in this area in that it
8 did not allow it to move into
9 the growing areas of Columbia
10 Basin and the west coast. However,
11 upon the removal of the restrictions,
12 Spokane has been able to cover the
13 market area of the Inland Empire
14 on a competitive basis. As an
15 example, one of the phases of our
16 business is the fabrication of
17 structural steel used in
18 construction. A large percentage of
19 this tonnage comes from the Chicago
20 based mills. This permits us on
21 rail shipments to fabricate in transit to any
22 area on the west coast by payment of a very
23 nominal transit charge, namely $3\frac{1}{2}\%$ per
24 hundred pounds. We have shipped
25 steel as far as the San Francisco
26 Bay area. This transit also
27 permits us to ship to Tidewater
28 for export to foreign countries.
29 As you can well see, this would be
30 impossible if the old restrictions
were still in force.



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(Frawley)

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2 Were it not for these things,
3 I am sure that Spokane would never
4 have had an opportunity to grow,
5 and should the restrictions again
6 be placed in the tariff the entire
7 area would stagnate, as far as a
8 distribution or manufacturing center.

9 I point out in the first paragraph on page
10 66 that this company, like many other American and
11 Canadian companies, is diversifying into new fields.
12 And, in relation to development markets for aluminum,
13 saw mill carriages, and other new products, Mr.
14 Roberts told me that the rate parity would come in
15 mighty handy.

16 The next manufacturer is the Columbia
17 Electric & Manufacturing Co., which, as many of you
18 may know, was started by Mr. Eric A. Johnston, a rather
19 dynamic American businessman, and his mother, and
20 Parker Brown. Originally, they took over a
21 distributor's sales and gave service for vacuum
22 cleaners. Purchasing the Doer-Mitchell Company in
23 1925, Brown-Johnston Company expanded into the former
24 company's lines -- the manufacture of custom lighting
25 fixtures and railings and the conduct of electrical
26 contracting. After the war, the manufacturing
27 division expanded its manufacture of commercial and
28 industrial custom-built lighting fixtures greatly,
29 made a distribution agreement with General Electric
30 Supply Co. for national distribution of Columbia



1
2 Electric's products and acquired a second factory
3 building. Rapid growth of manufacturing occurred
4 after 1947.

5 Then I mentioned the expansion of their
6 factory.

7 Proceeding with the first full paragraph on
8 page 67 of the brief.

9 Columbia Electric still has the problem of
10 high freight costs to its principal markets in
11 California and in the Middle West, Southwest, and the
12 East. These large markets are located great distances
13 from Spokane whereas nearby markets comprise only a
14 small proportion of the sales for Columbia Electric.
15 This problem of high freight costs to principal
16 markets because of their distance from the manufacturing
17 plants is a common problem of manufacturers located at
18 Intermountain cities compared with competing
19 manufacturers located in the densely populated areas
20 of the Pacific Coast or in large metropolitan areas in
21 eastern regions.

22 In the case of the Pacific Coast, I refer to
23 the large market available immediately on the Pacific
24 Coast to Pacific Coast manufacturers. In the case of
25 the Eastern and Southern markets, of course, I refer to
26 the advantage which -- well, Spokane has a distance
27 advantage there.

28 Difficult as this distance-cost handicap to
29 principal markets has been, Columbia Electric has not
30 experienced any freight-cost handicap in drawing to



1
2 its plants the steel sheet and other necessary
3 material required for production. This is because
4 Spokane has long enjoyed a parity of freight rates in
5 transcontinental shipments with the Pacific Coast cities.
6 The absence of long-and-short-haul discrimination in
7 rail rates during the entire period during which
8 Columbia Electric has operated has been a fostering
9 factor in the growth of this manufacturing business
10 rather than another obstacle to successful enterprise.
11 However, recent long-and-short-haul discriminations
12 against Spokane in truck rates to eastern markets,
13 accounted for by competition of forwarders from
14 coastal points such as Los Angeles, created a serious
15 problem for Columbia Electric.

16 And I should like to call attention to
17 footnote 63, page 67 of the brief, where the truck
18 freight rate at the time that I got this information
19 in March, 1960, from Spokane to Chicago was \$6.96 per
20 hundred weight, while from Seattle to Chicago, it is
21 \$5.50 per hundred weight, and from Los Angeles to
22 Chicago, it was \$4.87 per hundred weight.

23 Prior to a few weeks before this, the freight
24 rates by trucks -- and trucks are used extensively in
25 the distribution of these custom lighting and
26 fluorescent fixtures because of the speed factor and
27 the off-site construction jobs to which they make
28 delivery -- and when this change took place, this
29 greatly concerned the company. They immediately went
30 to their truck rate bureaus and tried to adjust this



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Nelson, dir.
(Frawley)

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1
2 and then proceeded to a case.

3 COMMISSIONER GOBEIL: Mr. Nelson, you
4 mentioned March, 1960. You say:

5 "Los Angeles to Chicago it is
6 \$4.87 per hundred weight".

7 Is that at the present time?

8 THE WITNESS: I think this has been
9 eliminated. I was told the last time I had a
10 discussion with Mr. Trueman Cantrell that they believe
11 through their negotiations and the case to get this
12 removed. I do not actually know. I have neglected
13 this fall, I may say, to check up on this. But at the
14 time I made this interview, this rate was in effect
15 and I was several times up there. I talked with Mr.
16 Toly and Mr. Cantrell and several other executives and
17 they were very disturbed about this, as you will note
18 when I read from the next page of the brief, from a
19 letter of April 25, written to me by Mr. Toly, the
20 President of Columbia Electric & Manufacturing Co.,
21 as follows:

22 "Pursuant to our conversation the
23 following are the facts pertinent
24 to your questions regarding the
25 effect of railroad rate parity
26 established in 1918 on Columbia
27 Electric & Manufacturing Company:

28 The enterprisers organizing
29 Columbia Electric's manufacturing
30 business around 1940 were aware that



1
2 Spokane enjoyed (for two decades)
3 the same rates as Seattle or other
4 coastal points on:

5 (a) Materials from eastern and
6 midwestern centers of production.

7 (b) Products that might be
8 manufactured in Spokane and shipped
9 to eastern markets.

10 Therefore, it seems reasonable
11 to infer that this rate parity was
12 a factor favourable to establishing
13 manufacturing in Spokane and elsewhere.
14 It was not the principal factor,
15 because local men built this business
16 from a retailing organization and
17 persisted despite distance handicaps
18 to markets compared with other locations.

19 From recent truck rate
20 discriminations, dating back to
21 November, 1959, that is, rates from
22 Seattle, Los Angeles and other Pacific
23 Coast points to markets in the east
24 and middle west, we know that had
25 such truck or rail rate discrimination
26 been in existence at the time Columbia
27 Electric started, we could not have
28 grown to our present size and
29 widespread markets."
30 This ends the quotation from Mr. Toly on a



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(Frawley)

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2 point that I made about this current case that
3 disturbed the company greatly and caused them, I
4 understand, to consider relocating unless they could
5 adjust this situation, which I believe they have, but
6 I cannot testify as a fact as to that.

7 Now, the last company that I refer to in
8 the manufacturing field is Kaiser Aluminum & Chemical
9 Corporation. This is Spokane's largest industrial
10 employer, employing 4,500 persons on the average,
11 and having a payroll of \$30 million a year.

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2 On page 69 of the brief I briefly describe
3 from reports, from information I selected, I obtained
4 from the company and a report mentioned on page 70 by
5 Carleton Green, which is footnote 66 of the Stanford
6 Research Institute -- I briefly describe some of the
7 forces that led to the development of the aluminum
8 industry in the northwest. We had the military
9 requirements during the war, the desire to have
10 production of sheet near Seattle and Los Angeles where
11 aeroplanes were being made and the increasing swing
12 upward of the goals of the aluminum needed for the
13 war. I think up here in Canada you also expanded
14 your aluminum production with the same objectives in
15 mind.

16 Now, on page 70 of the brief I should like
17 to read the first full paragraph.

18 When the private companies became interested
19 in 1939 in establishing primary aluminum reduction
20 plants in the Pacific northwest because of that region's
21 ample supplies of low-cost electric power, they original-
22 ly sought locations adjacent to water transport. For
23 example, the first plant, that of the Aluminum Company
24 of America, was located at Vancouver, Washington, on
25 the lower Columbia river. However, when the railroads
26 established a trainload rate of \$8 per ton (now about
27 \$12) on alumina (the ore concentrate that is reduced
28 to metallic form by electrochemical processes) from
29 the southeast to all producing points in the Pacific
30 northwest, locations at interior cities became feasible



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2 and rail transport became the standard method for ship-
3 ping in that significant material for aluminum production.

4 But the immediately decisive factors in choosing
5 Spokane for two of the Defence Plant Corporation's
6 plants were the military interest in having more
7 production facilities beyond easy bombing range along
8 the west coast after the war with Japan began in 1941,
9 and the greater availability of labour at Spokane
10 than at coastal centers where war-expanding ship-
11 building and aircraft industries were competing for
12 the labour supply. The Trentwood rolling mill at
13 Spokane was designed to have a western supply of
14 aluminum sheet for the aircraft plants of the Seattle
15 and Los Angeles areas produced at an interior lo-
16 cation. As Columbia River electricity for industrial
17 purposes was available at a uniform rate throughout
18 the Pacific Northwest, variance in power costs was not
19 a factor in the particular locations within that region
20 for the aluminum plants.

21 According to Mr. Angus McLeod, Director of
22 Traffic and Transportation, Kaiser Aluminum & Chemical
23 Corporation, the existence or absence of long-and-short-
24 haul discrimination was not a controlling factor in
25 locating the aluminum plants in the Spokane area.
26 His statement was as follows:

27 " . . . From your letter, it is clear that
28 you understand that transportation factors
29 were not compelling in the locating of
30 aluminum plants in the Spokane area."



1
2 Notwithstanding, the tradition (since 1918)
3 of a parity of rail rates on westbound transcontinental
4 shipments to group destination territory in the Pacific
5 northwest doubtless made it easier to negotiate parity
6 rates for alumina to all Pacific northwest cities,
7 including those in the interior, at which primary
8 aluminum facilities might be located. Moreover, it
9 appears that all producing plants selling the same
10 aluminum products in eastern territories have been placed
11 on a basis of parity in rail freight rates on eastbound
12 shipments of such products. Under peacetime com-
13 petitive conditions it is unlikely that aluminum plants
14 located in the interior could continue to compete
15 against plants located at coastal cities if the
16 latter enjoyed the double advantage of water transport
17 and lower rail rates on both inbound materials and
18 on outbound shipments to the eastern territories
19 where a large part of the total output of Pacific
20 northwest aluminum plants must be marketed. And
21 when the U. S. Government cast about for a safe and
22 feasible location for two of its wartime aluminum
23 plants, Spokane was selected not only because that city
24 was 300 or more miles from the Pacific coast but also
25 because Spokane afforded the labour supply, housing,
26 school, and other facilities required for rapid
27 establishment of large-scale aluminum reduction and
28 rolling facilities. As noted above, the elimination
29 of long-and-short-haul discrimination in 1918 and the
30 establishment of rate parity with coastal locations on



1
2 transcontinental shipments have been positive factors
3 in the continuing growth of Spokane after 1920. It
4 follows that long-established rate parity was an
5 indirect factor of some importance to the rise of
6 Spokane as a major aluminum manufacturing center
7 although other factors may have been more significant
8 in the original decisions.

9 In the next two paragraphs I refer to the
10 tendency for a whole cluster of aluminum fabricating
11 plants to arise in the northwest and at Spokane. The
12 exact reasons for this I do not claim to know but this
13 does happen. This tends to happen when you get a
14 major industry located in any region that becomes
15 successful and if, therefore, the freight rate situation
16 has not impeded the establishment of major industry
17 it may have something to do with the allied or associated
18 fabricating industries.

19 I would like to read the conclusions and com-
20 plete my testimony.

21 As noted at the beginning, many factors other
22 than freight rates influence the location of industry
23 and commerce and the rate of economic growth attained
24 by different communities and regions. However, freight
25 rates are usually a factor to be considered and may
26 be an influential factor in a number of situations.
27 Freight rates, or the differences in freight rates,
28 may become controlling where they comprise significant
29 parts of total production and distribution costs.
30 Even if controlling, differences in rates justified



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2 by differences in transport costs should have their
3 appropriate weight in determining where particular
4 industries will be located and the rate of growth or
5 development attained in particular communities and
6 regions. On the other hand, where differences in
7 freight rates are not justified by differences in
8 transport costs, rate discrimination exists which may
9 not only retard industrial location in the communities
10 and regions discriminated against but also may produce
11 an uneconomic effect by discouraging location or
12 growth where, all factors considered including rates
13 appropriately adjusted to costs, the production and
14 marketing costs would be at a minimum.

15 The evidence assembled in this survey,
16 although not definitive, suggests that the long and
17 short haul discrimination practised widely by the
18 American railroads as to transcontinental shipments
19 before 1918 did have a restrictive influence on the
20 growth of wholesaling, retailing, the service industries,
21 and even on manufacturing, at such intermountain
22 locations as Spokane, Washington, and Salt Lake City,
23 Utah. Those directly affected by such discrimination
24 at interior cities of the United States testified before
25 the Interstate Commerce Commission that their marketing
26 territories and volumes had been materially limited
27 by the higher rates quoted to intermountain communities
28 than to the Pacific coastal cities. Those effects
29 occurred especially in the wholesaling and jobbing
30 trades. And they took place despite the fact that



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2 Spokane, for example, displayed rapid population and
3 business growth between 1890 and 1910, based on the
4 initial exploitation of agricultural, timber, and mineral
5 resources, including development of considerable
6 resource-oriented manufacturing. Without the dis-
7 crimination from higher rates for short hauls to
8 interior locations than for long hauls to the coastal
9 cities, the rate of growth of population at Spokane
10 and other intermountain communities would probably have
11 been greater previous to 1918 when long and short haul
12 discrimination was abolished by ICC order.

13 In contrast, taking Spokane, Washington, as
14 a representative intermountain community for detailed
15 analysis, there was a definite resumption of growth
16 in population and in the real volume of business
17 activity after rate parity was established in 1918.
18 This upward growth in economic activity at Spokane
19 has continued ever since that time except during the
20 depression years of the 1930's. Of course, many
21 factors, such as development of vast quantities of
22 hydroelectric power on the Columbia river, the mili-
23 tary emphasis on aluminum production during World War
24 II and the Korean War, the continued maintenance of
25 large military establishments in strategic areas
26 because of the cold war, the larger western markets
27 for western manufacturing industries in reflection of
28 rapid population growth in the west, have contributed
29 materially to the continuing economic growth at
30 Spokane and at several other intermountain cities.



1
2 Nevertheless, the widening distributing territories for
3 Spokane wholesalers after 1918, their increasing number,
4 and the relatively rapid growth in their total business
5 volume all indicate that the parity of freight rates
6 accomplished in that year was a positive factor operating
7 to induce economic growth at Spokane many years before
8 the special factors cited above began to exert heavy
9 influence. To the extent that wholesaling activity
10 increased after the rate discriminations were ended,
11 additional jobs were created in and near Spokane,
12 supporting population growth at Spokane. In turn, the
13 rising population and income from this increased
14 activity supported additional service establishments;
15 and by lowering retail prices in Spokane relative to
16 other large cities, the parity of freight rates,
17 along with good roads, helped to make Spokane a larger
18 trading, financial, and service center.

19 In several ways but along with other factors,
20 the removal of long and short haul discrimination un-
21 doubtedly has been a stimulating force in the growth
22 that has taken place at Spokane since about 1920.
23 It has even been conducive to development of manu-
24 facturing there. As illustrated by information
25 supplied by leading manufacturers located at Spokane,
26 the parity of freight rates achieved in 1918 has
27 also widened their markets and increased the variety
28 of manufacturing opportunities available at Spokane.
29 At the minimum, business men seeking to locate
30 manufacturing plants at Spokane, or to expand into



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Nelson, dir
(Frawley)

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2 new lines, do not have to anticipate any substantial
3 disadvantages in rates to and from eastern markets
4 compared with locations at Pacific coastal cities if
5 they can develop enough volume to justify favourable
6 commodity rates. Either they can assume that rate
7 equality with coastal locations already exists or
8 that equal rates can successfully be negotiated with
9 the railroads because of the longstanding tradition
10 of rate parity. Although Spokane manufacturers
11 have a substantial distance-cost disadvantage in selling
12 their products in the dense population centers in
13 eastern regions of the United States compared with
14 manufacturers located nearer to those distant markets,
15 and also have a distance-cost disadvantage in reaching
16 the more populous markets on the Pacific coast in
17 competition with manufacturers located along that
18 coast, Spokane manufacturers do not have to contend
19 with the additional disadvantage, once present, of
20 paying higher freight rates to and from eastern markets
21 than are assessed competing manufacturers located
22 on the Pacific coast. And even though other factors
23 appear to have been more influential in selection of
24 Spokane as a site for two large-scale aluminum plants,
25 Spokane's largest industry, aluminum reduction and
26 rolling, probably benefited considerably from the
27 tradition of rate parity established two decades before
28 aluminum production was contemplated at Spokane.
29 At least, it can be said that the inducement that
30 rate parity gave to the earlier growth of Spokane



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2 made that city a favourable place for locating large
3 manufacturing plants during World War II.

4 Except to the extent that western industry
5 can depend on expanding western markets in the future,
6 Spokane and other similarly located intermountain
7 cities will continue to benefit from the established
8 policy of rail rate parity with coastal cities on
9 transcontinental shipments. And since incremental
10 rail transport costs are lower on the short hauls than
11 on the longer hauls of which the short hauls are a
12 part, the parity relationship appears generally to
13 conform to the requirements of allocative efficiency
14 both in railroad pricing and the location of industry
15 and commerce.

16 Q. That completes the presentation of your
17 submission?

18 A. It does.

19 MR. FRAWLEY: Will you please answer to
20 Commission counsel?

21 THE CHAIRMAN: I think before Mr. Cumming
22 starts I should say that we have a new appearance
23 this morning representing the Province of Quebec, and
24 if he has any questions after Mr. Cumming is finished
25 then he might ask them.

26 CROSS-EXAMINATION BY MR. CUMMING:

27 Q. I am sure we welcome the representative
28 from Quebec here.

29 Dr. Nelson, these studies you have conducted
30



1
2 and have told us about in this brief are concerned with
3 the economic effects on Spokane, Washington, of
4 adjustments in the United States transcontinental rates.
5 I am wondering if any similar studies as broad in scope
6 as this study have been conducted in the same area
7 with reference to the economies of the cities of
8 Calgary and Edmonton?

9 A. Not by me. Unless some of the Alberta
10 representatives made such studies then I do not believe
11 they have been made.

12 Q. And the conclusions which you draw from
13 the study which you have conducted are applicable in
14 your opinion to the Alberta and Canadian situation
15 for the reasons which you have outlined in your brief
16 starting from page 7, to the extent that conditions are
17 the same.

18 A. My study was made to discover what the
19 situation has been with regard to the economic effects
20 of the United States from a parity of freight rates.
21 It was thought, and I think it does throw possible
22 light upon a similar situation, a similarly located
23 situation, across the border. The conditions, however,
24 would be somewhat different there and the precise effect
25 in magnitude might be different.

26 Q. That is the point I was coming to. If
27 similar studies were to be conducted in Calgary and
28 Edmonton or one or other of them and conditions were
29 found to vary, trends were found to be different than
30 that which you discovered in your examination of the



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2 economic effects of long and short haul discrimination
3 in Spokane, then at least, to the extent that such
4 variations turned up, then one would have to be very
5 careful about applying the conclusions that are drawn
6 in relation to the removal of the long and short haul
7 discrimination in Spokane to any such similar step
8 in Alberta?

9 A. One always has to be careful in applying
10 the results of one situation to another in any field
11 of endeavour. This, of course, does not mean that
12 general economic causation in one place would not
13 be general economic causation in effect in another place
14 if substantially similar sets of facts existed. I
15 think to some extent, although I have not made a de-
16 tailed study of Edmonton and Calgary to which you
17 refer, I think to some extent there is comparability
18 of the situation. I will, however, concede that
19 one would have to make a detailed study up there and
20 find the general types of facts that occur in Spokane
21 which undoubtedly would occur there and find to what
22 extent they were in magnitude the same. I cannot say
23 whether they would be the same in magnitude or somewhat
24 less than at Spokane, which I think you are probably
25 implying.

26 Q. I am not making an implication at all,
27 I am asking a purely theoretical question.

28 A. I think the effects in direction would
29 be the same there as in Spokane.

30 Q. And the extent to which -- if I understand



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2 your position -- would be measured by the basis, by
3 the extent to which the bases are comparable, the
4 existing circumstances are comparable in the two places?

5 A. This is always true of analogies.

6 Q. You have told us prior to 1918 this
7 condition of long and short haul discrimination existed.
8 Were the reasons that the railways practised long and
9 short haul by granting other than available transcon-
10 tinental rates to the United States coastal cities the
11 same as those for which they are made in Canada?

12 A. I have not studied all the precise
13 reasons for long and short haul discrimination in the
14 case of areas in Canada.

15 Q. Perhaps you could say the basis on
16 which they are made in the United States?

17 A. I have general information on this and
18 in so far as they were made in the United States to
19 meet water competition, I believe some of this inter-
20 coastal water competition existed at Vancouver, and I
21 do not know whether market conditions were a serious
22 factor in the Canadian field or not. It often was
23 in the United States.

24 Q. That is the market competition from
25 foreign overseas sources of supply?

26 A. Not so much I think in that case as
27 market competition between the Chicago area and the
28 Atlantic seaboard seeking a market in the Pacific
29 coastal cities. The Atlantic seaboard using their
30 short rates by road to the Atlantic coast and inter-



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Nelson, cr-ex
(Cumming)

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2 coastal shipping to the western cities, Chicago and
3 Minneapolis being in the effective range of rail
4 transportation to the east coast and being dependent
5 on rail transportation to the same Pacific coastal
6 cities. They, therefore, exerted pressures, as you
7 know, on the railroads to discriminate long and short
8 haul.

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2 Q. Is that properly called market com-
3 petition -- that situation you just described-- or is
4 that what I understand to be water competition?

5 A. This gets you into definitions, and
6 there is an element of route competition and an element
7 of market competition. This happens to be competition
8 of producing sources for common markets.

9 Q. It is a little bit of both, then?

10 A. Yes.

11 Q. You say on the first page of your brief
12 that there are still occasional instances of long and
13 short haul discrimination, that is, higher rates to
14 and from intermountain cities than to and from cities
15 on the Pacific coast on transcontinental traffic. To
16 what extent does that situation prevail today?

17 A. Very, very small, except to the extent
18 that when you have rate parity to, say, Spokane from
19 Chicago with Seattle when there are additional costs
20 to market it at Seattle, you obviously still have
21 some degree of long and short haul discrimination.
22 That is what I have largely referred to. I understand
23 there have been occasional instances in past years of
24 long and short haul discrimination, but very rare.

25 Q. When parity was established in 1918,
26 just what was the effect? Did the rates to the
27 intermountain or intermediate points go down or did
28 the rates to the coastal points go up to the levels
29 at the intermediate points?

30 A. When the railroads filed their tariffs



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2 after the 1917 Case that I cited (transcontinental
3 rates 46 IC: 236,1917), they were given the alternative
4 by the Interstate Commerce Commission, and they chose
5 to raise the coastal rates to the level of the highest
6 intermediate point rates and in some instances to
7 slightly more.

8 Q. This, of course, had a beneficial effect
9 as far as distributors at intermediate points are con-
10 cerned, because as you have so fully explained it
11 expands the areas within which they could compete,
12 marketwise, with their competitors at the coast?

13 A. I think that is true, and if I may answer
14 your former question -- I didn't get a chance to com-
15 plete the answer. In one of the -- and I could find
16 it by looking carefully at my notes -- but in one of the
17 succeeding cases in which the railroads sought to re-
18 establish long and short haul discrimination after 1921
19 -- and I think it is the 1926 case, but I would have
20 to refer carefully to my notes -- because of the reintro-
21 duction of intercoastal competition after World War I,
22 the Interstate Commerce Commission refused to permit
23 this. It did in nearly all these cases, but in this
24 particular case the railways decided to go ahead and put
25 in the lower rates they had filed to Seattle and other
26 coastal points and make them applicable to Spokane and
27 intermediate cities. So, immediately, during World
28 War I, when inflation was taking hold, and of course
29 the railroads were going to elect the opportunity to
30 raise the price level, they elected to raise the rates



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2 to the intermediate level, but after the war, when they
3 were turned down they conceded that they were better
4 off to give parity to Spokane and other such cities
5 than to forego the rate reduction to the coastal points.

6 Q. And did that situation continue without
7 interruption -- is that the situation that prevails
8 today?

9 A. I can't testify to that, because there
10 have been all sorts of changes. We have had seven
11 or eight major cases since 1946 and rates have gone up
12 fifteen or sixteen times and I haven't made that kind
13 of a study to be able to say -- I think they still
14 exist.

15 Q. That is, the 1926 relationships?

16 A. Yes, but that does not mean the same
17 rates exist. They are much higher today both for
18 the coast and intermediate points.

19 Q. My point is simply this: if as a result
20 of the institution of the parity requirement, rates at
21 the terminal points are raised rather than a reduction
22 being made in rates to intermediate points, I find it
23 a little difficult to see how anybody at the intermediate
24 point other than the distributor himself can benefit?

25 A. Well, the distributor would definitely
26 benefit, because his market territories did increase
27 and his volume of business.

28 Q. Yes, but how does the man who is buying
29 what that distributor handles benefit?

30 A. In that particular case, unless the



1
2 Spokane, for example, wholesalers were more efficient
3 in functions other than transportation than the Seattle
4 wholesalers, the consumer would not immediately benefit.

5 Q. Dealing with this ---

6 A. But in the other case -- the 1926 case,
7 I believe it was -- when the railroads elected to
8 reduce the intermediate points, I think the consumer did
9 benefit. Probably if there is enough competition --
10 and I assume since we began to head towards a depres-
11 sion I have a feeling perhaps competition did reflect
12 price reductions in neighbouring towns and right in
13 Spokane to the consumers. This would be the normal
14 tendency in the competitive market.

15 Q. Do you think that if the result of the
16 institution of a parity requirement is going to be
17 nothing other than the raising of coastal rates, with
18 the consequential effect that really the only person
19 who benefits at the intermediate point is the distri-
20 butor -- certainly not the consumer -- that that, in
21 itself, is a sufficient justification for a parity
22 requirement?

23 A. Well, in the first place, I can't accept
24 your limiting conditions here, because I don't think
25 that the effects need always to be this. They can be
26 any of a variety of combinations, and therefore the
27 conclusions would be different. But, accepting your
28 theoretical, hypothetical set of conditions, and
29 recognizing it would not always work this way, I would
30 say that immediately there would be a principal gain



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2 perhaps to the distributors in the intermediate points.
3 There may be gains to manufacturers but I would have
4 to think about that a good deal before I would want to
5 conclude, as an economist, on this. I would say there
6 is more than gain to the distributors involved because
7 if the transportation costs are such as I believe they
8 are, that is, the marginal costs of railroad transporta-
9 tion from Chicago to Spokane are certainly less than
10 they are from Chicago to Seattle, and it seems to me
11 that if wholesaling grows relatively by Spokane,
12 assuming the same costs of wholesaling other than
13 transportation, that there is equal efficiency -- it
14 is a matter of indifference where the wholesaling is
15 located except for transport, either in Seattle or
16 Spokane -- I would say society gains, and if society
17 gains the consumer ultimately gains even if he doesn't
18 immediately -- the day after the adjustment took place.

19 Q. Perhaps the hypothesis on which it was
20 put is not quite so purely hypothetical or theoretical,
21 because isn't that just what the railways did after
22 1917?

23 A. Yes, after March 15th, 1918, they raised
24 the rates to the coast, but this is not all that they
25 did. You can't take from one instance and conclude in
26 general -- I can't, in any case.

27 Q. Dr. Nelson, we have heard a good many
28 times during the hearings of this Commission the
29 proposition under the operation of long and short haul
30 discriminatory pricing there is some benefit to the



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2 manufacturer at intermediate points because of the so-
3 called tariff barrier created by the higher rates.

4 I wonder if you would give the Commission the benefit
5 of your views on that proposition?

6 A. I would be glad to. There is no doubt
7 but that raising freight rates from competing manu-
8 facturers in the south or east tends, other things
9 being equal, to increase the western markets for
10 western plants making the same products since it
11 increases the distance disadvantage of the eastern
12 manufacturers in markets in the west.

13 I made a study in the Department of Commerce
14 with another man, Locational Factors in the Cast Iron
15 Pipe Industry, and as a result of inflation in freight
16 rates after the war the market for cast iron pipe
17 companies, in Los Angeles particularly, extended, and
18 this was one of the reasons. If this increase in
19 freight rates takes place because the costs of
20 transportation have increased, and if the increase
21 in freight rates faithfully reflects those actual
22 cost increases, all this means is that the whole set
23 of locational factors in Los Angeles, let us say,
24 has improved in relation to Birmingham or Chicago,
25 and, as economists, we would have to say that a shift
26 in production there would be desirable for society
27 even though Birmingham and Chicago, also producing
28 cast iron pipe, may not like it. This is quite a
29 different thing from any proposition of raising freight
30 rates artificially above costs in order to give



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2 protection to local industry for local markets. As
3 an economist, I could not approve of this. This would
4 be like a protective tariff and it would have the same
5 kind of effects upon consumers or society in the long
6 run as protective tariffs.

7 In the case of long and short haul discrimina-
8 tion I would think an interior community would be maybe
9 only in the short run well advised, certainly in the
10 long run poorly advised if it sought to have long and
11 short haul discrimination against itself in order to
12 extend the local markets for some of its manufacturers,
13 and as to Spokane I can assure you that they would not
14 take such a position today, and I doubt in the early
15 future, but I am sure they would not take that position
16 today because Spokane is fighting to maintain its
17 present manufacturing industries not because of long
18 and short haul discrimination or rates that do not
19 reflect the logic of the cost compared with the Pacific
20 coast, but because the cost of power has gone down with
21 modern coal technology in producing power in the Ohio
22 Valley, and our power advantage is lessened, and now
23 our transportation of materials all the way from Arkansas
24 to Spokane and the other plants out there, and 50 --
25 it used to be 70 per cent -- but at least 50 per cent
26 of all the products still have to go way back to the
27 east, and transportation becomes tremendously significant.
28 In this situation, asking for long and short haul dis-
29 crimination to protect the local market, why, they would
30 close -- if they had to sell all the aluminum produced



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2 in the Kaiser Aluminum Company to the Spokane market
3 or to nearby markets, they could close down most of the
4 power lines. They would have to.

5 Q. On page 3, in reviewing some of the
6 contentions made by the business groups in the inter-
7 mountain area you say the argument was made, "that
8 manufacturing plants, except for lumber mills, smelters,
9 and plants using agricultural and extractive resources
10 available for processing at intermountain locations,
11 were generally induced to locate at the Pacific
12 terminal cities . . .". Can you tell us whether
13 the prime reason for that was the advantageous east-
14 bound rail rate, or was the primary consideration the
15 availability of ocean transportation facilities?

16 A. I don't think it was the latter. I
17 think the prime -- I cannot give a precise mathematical
18 rating to the different factors -- but I think first
19 we would have to say that they did find lead and zinc
20 and silver in certain areas not too far from Spokane.
21 Secondly, the Great Palouse grain country -- and I may
22 sound like a chamber of commerce here -- one of the
23 greatest small areas for the production of wheat in
24 the world, was settled rapidly after the railroad was
25 completed in 1883.

26 Thirdly, there are stands of timber out there
27 -- good timber such as white pine and other types of
28 timber -- and all of these commodities are weight-
29 losing commodities, so if the materials are good in
30 relation to the materials closer to the eastern markets,



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2 and if given relatively low freight rates -- and I want
3 to give great credit to the railroads; I lecture on
4 this in my classes, because there is an attitude in
5 my country that the railroads are robber barons.
6 They were once, but they are not any more, and even
7 when they were they contributed greatly to the develop-
8 ment of our country, and I suspect to the development of
9 Canada. They did give low freight rates. They gave
10 freight rates so low -- and all our textbooks show this
11 -- to lumber to get the sawmills started so they could
12 have a market in the east as well as by sea to San
13 Francisco, and they started to supply lumber to Elliott
14 Bay as well as San Francisco, when that gold strike
15 started there. But, this would not have developed
16 the northwest very much; we had to have markets in the
17 east, and they were supplied by the railroads, and the
18 railroads voluntarily gave very low rates -- certainly
19 below average costs in order to stimulate this business.
20 Some time later they tried to raise the rates. The
21 lumber people took them to the Commission and the
22 Commission allowed them to raise the rates. I think
23 it went to the courts, and the courts allowed them to
24 raise the rates. The principle was adopted that in
25 the railroads' interest it may grant low rates to utilize
26 its excess capacity and stimulate development, but once
27 those conditions are no longer, it is the right of the
28 railroads to raise those rates to a more profitable
29 level. Does that answer your question?



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2 this appears:

3 'Canada is a relatively less developed
4 country relative to its resource and
5 population potential than the United
6 States. Probably for this reason, the
7 Canadian railroads are used as instruments
8 of national policy to foster initial
9 economic development to a greater extent
10 today than are the American railroads.
11 For the same reason, Canadian roads may
12 possibly exhibit more excess capacity
13 justifying greater resource to rate
14 discrimination than in the United States."

15 There are two questions I have arising out of that,
16 and perhaps I can put them both to you and then you
17 can deal with them together.

18 I would like to know in what respect, in
19 your view, the Canadian roads are being used as
20 instruments of national policy; and, to what extent
21 its excess capacity or greater excess capacity existing
22 here than in the United States justifies a resource to
23 rate discrimination?

24 A. I would like to answer the last one
25 first. I have not made an extended study of excess
26 capacity -- a very difficult subject. I tried to do
27 it in connection with the American railroads. There-
28 fore, I can't factually answer your question, though I
29 am generally aware that most observers do believe that
30 perhaps there is somewhat more excess capacity in the



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2 Canadian railways than in the American railways.
3 Certainly this is true in many of your minor lines, and
4 to the extent that this condition exists and the rail-
5 roads can increase their traffic and utilization by
6 granting low rates, if the rates are not too small
7 in relation to their costs and demand, they may increase
8 their net profits.

9 Q. This is on the assumption there is a
10 greater amount of excess capacity?

11 A. If there is no excess capacity that means
12 that marginal costs are equal to the total average unit
13 costs at the least cost of production, and in that case
14 any rate below average cost would be not only unprofitable
15 to the railroads but would be uneconomic to society
16 for it would mean you are serving demands the benefits
17 of which are not equal to the resources to provide the
18 transportation for those demands.

19 Q. It would be equal to in Canada ---

20 A. Well, I don't know your transportation
21 law that well.

22 COMMISSIONER MANN: Dr. Nelson, is it my
23 understanding that your view is that if a country or
24 part of a country is in a state of development less
25 pronounced than, say, parts of the United States or
26 all of the United States, that it is justifiable for the
27 State to use the railways as an instrument of national
28 policy?

29 THE WITNESS: Whether it is justifiable or
30 not, I noted that history shows the United States did



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2 so, and I think this is written up in your transportation
3 texts for Canada as well.

4 COMMISSIONER MANN: But do you agree with
5 that? Do you think it is justifiable?

6 THE WITNESS: Yes, I wrote an article in
7 Law and Contemporary Problems in the autumn of 1959 in
8 which I was asked to review the whole problem of public
9 aids, subsidies, and so on, and I endorsed the extent
10 to which we used subsidies. I was talking about
11 government subsidies. But, this use of internal sub-
12 sidization in railroad rates is not a real subsidy, but
13 it is similar in its effect, and to the extent this is
14 favourable to the railroads and to society, to the extent
15 the excess capacity is very great, I think most
16 economists would say this is desirable, but the point
17 comes when it is no longer desirable and when that
18 point comes, as a matter of fact -- and I would have to
19 see the facts before I could arrive at conclusions about
20 the fact -- because I think that is the type of question
21 I am being asked here -- but I think I can answer your
22 question.

23 I think after the excess capacity largely
24 disappears or gets to be a small margin -- and here
25 you must not take just a week or a day, or a year like
26 1958 when we have a drop in traffic -- you must take a
27 period of time, and when the excess capacity becomes a
28 small margin, then the marginal costs are going to be
29 close to average costs. Then the railroad has to be
30 mighty careful in what it is doing when it starts putting



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2 in low rates to encourage more volume, because it may
3 be appearing to make a profit today and tomorrow or
4 the next week or the next month, but it may find itself
5 strapped in a few years or less time with unprofitable
6 business.

7 COMMISSIONER MANN: We have wandered into the
8 field of internal subsidization. What I was really
9 dealing with was the role of the State perhaps by way
10 of external subsidy, perhaps by other means, in using
11 transportation agencies as instruments of national
12 policy. That is the point I was really getting at.
13 Do you say there is any justification for that?

14 THE WITNESS: In the initial development of
15 immature economies history, I think, in this North
16 America shows that if you encourage the development
17 of fixed facilities that might otherwise be retarded
18 because of the lack of capital you hasten the rate of
19 development of the economy in general, and this raises
20 the problem -- the development would ultimately come
21 anyhow; if it was economic, the capital would seek it
22 -- but it would take longer. This raises the question
23 of whether it is desirable to raise the population --
24 immigration from Europe. These are social policy
25 questions we all have our ideas on; they are not really
26 economic questions.

27 I would say yes; I would agree that appro-
28 priate use of subsidies to encourage, in an immature
29 economy, the development of resources at a more rapid
30 rate, with limitations, is desirable.

---Short recess.



1
2 THE CHAIRMAN: Order, please.

3 R. CUMMING: I have just a very few more
4 points, Mr. Chairman.

5 Q. Dr. Nelson, in conducting this study you
6 were, I take from this title, seeking to assess the
7 economic effect of limitation of long and short haul
8 discrimination of the Intermountain region in the United
9 States. And, in conducting the surveys, as you have
10 described, you have gone to various sources and spoken
11 to retailers and wholesalers, jobbers, distributors and
12 manufacturers in this Intermountain region. Have you
13 considered the economic effects of the elimination of
14 long and short haul discrimination upon the railways?
15 And, in that connection, have you discussed the matter
16 with railway rate men and traffic officers?

17 A. Well, I did not make a specific analysis
18 of these economic effects upon the railways, as I have
19 upon the Intermountain regions. I have in times past
20 had many discussions with railroad men about long and
21 short haul clause discrimination.

22 Q. And, dealing with this specific one, are
23 you in a position to tell us whether or not the result
24 of the institution of parity in 1918 has brought about
25 an improvement or worsening of railway net revenue
26 position?

27 A. Not from a specific concentrated analysis
28 of this one question, but I will say that I wrote, and
29 in some cases telephoned, to professors in universities
30 in eleven western states and to other personages in



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(Cumming)

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2 Salt Lake city, people who know about these things, and
3 sought information as to whether any theses in those
4 universities or articles or books had been written which
5 would give the economic effects in all of their aspects,
6 including these railways. I was aided in this because
7 last Christmas I was put on a working committee headed by
8 John Myer, whom I believe you know, of the National Bureau
9 of Economic Research, to consider whether that bureau
10 should conduct a transportation economic conference. We
11 met in New York late in February, and the bureau is going
12 to conduct such a conference. I was asked to make a survey
13 in January and February of last year of the western
14 universities to find out what research was going on, and
15 I combined these two things. I must say that I was --
16 well, I do not know whether I was shocked, but I was
17 dissappointed when I did not uncover any studies.

18 Mr. Hampton Snell, now Professor of transportation
19 at Texas, did a Ph.D dissertation at Yale on long and short
20 haul clause discrimination. It was never published because
21 the Dewey study came out -- there were two studies made at
22 the same time, and Dewey's came out, and there was no
23 point in publishing his. But Hampton Snell wrote me he
24 had not examined this question. I was looking for
25 economic effects on whoever they affected; I wanted the
26 whole thing, but I was not able to find a thorough-going
27 study. Even the Dewey study, which is an excellent study,
28 is a study of policy and decisions but not of effects,
29 except in a very general theoretical sense. Therefore,
30 I do not know of anyone who can, except maybe the railroads



1
2 themselves. But I can give you a general answer. The
3 western railroads, except for the period of the thirties,
4 when the depression affected them very seriously, have
5 improved their relative position in relation to eastern
6 railways. My book shows this. If you wish, I could pull
7 it out and cite the chapter and verse.

8 The earning position of the western railroads,
9 including the transcontinental railroads, improved between
10 the period of the twenties, the last period of prosperity
11 for the railways before World War II, and postwar period
12 in relation to the eastern railroads.

13 It is possible that if they had more long and
14 short haul discrimination their earnings might have been
15 somewhat higher. I cannot say that they would. It is
16 possible that they would; it is also possible that if
17 they had that their earnings might have been somewhat
18 lower, or the same.

19 Q. That may be the result of more intensive
20 competition which is affecting the revenue position of
21 eastern roads as compared to western roads? That could
22 be another position to affect the relative position?

23 A. That is one of the factors, but another
24 factor is that the population industry, wholesaling
25 volume of business in the western, has grown, and the
26 western railroads utilize their capacity more fully
27 today relative to the use of the railroad utilization in
28 the twenties. Hence, their costs have fallen.

29 COMMISSIONER GOBEL: In his brief, Dr. Harries
30 said, and I asked him about it, that the main beneficiaries



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2 if the discrimination was removed on long and short haul
3 discriminat on would be the transportation industry.

4 From what you say, you have shown that if they
5 have been made beneficiaries, or if they have benefitted
6 by the changes made, you mention one railroad did that.
7 But, on the whole you are not in a position to say? I
8 understand from what your answer to Mr. Cumming was that
9 you are not in a position to say if the railways as a
10 whole have benefitted?

11 THE WITNESS: That is correct, because I have
12 not made the detailed type of analysis of this particular
13 type of question nor to my knowledge has anyone else, that
14 would enable a person to reach factual conclusions as far
15 as American railroads are concerned. I am not testifying
16 on the Canadian railroads because I know even less of
17 them, but I am saying it is a historical fact that the
18 western railroads have strenghtened their financial
19 position in relation to the eastern railroads.

20 There are other factors, such as additional
21 truck competition with the toll rates, and the shorter
22 distances in the east, but this is not the only reason
23 for this. I did say that it is possible that long and
24 short haul clause discrimination and under some conditions
25 may improve the profits of the railroad. It is my
26 position that that is not the only criterion that has to
27 be applied in public policy. We all want the railroads
28 to be profitable, but where there is monopoly power, as
29 there is, either we are going to limit the monopoly power
30 in a socially acceptable way, or we are going to give the



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2 monopolist, where he has the monopoly, and a high degree
3 of monopoly, complete freedom to do what he wants.

4 This is not acceptable to the American public,
5 and I think it is also possible -- though I am not able
6 to testify factually on it -- that reduced long and short
7 haul discrimination might not disadvantage the railways.

8 I would say in one condition it would not.
9 Supposing the railways have the long haul rates very low
10 because of water competition, and supposing they are using
11 rule of the thumb methods of determining what their
12 marginal or out of pocket costs for the long haul are, and
13 supposing that the actual long run margin or out-of-pocket
14 costs are higher than they think it is. They may be taking
15 in less revenue than their added costs, including the
16 cost of the extra wear on the trucks and the wheels and
17 all this daily, and not be aware of it. In that case,
18 of course, the reduction on long and short haul
19 discrimination would improve the profitability of the
20 railway. There may be other cases.

21 Q. All I am getting at, Dr. Nelson, is simply
22 this. I take it you would agree as an economist that in
23 assessing the economic effects of such a move as the
24 limitation of long and short haul discrimination one
25 should look not only at these regional effects, as it
26 affects shippers and consumers, shippers and consignees
27 in the area, but also the effects upon the railways as
28 well, and then weigh them and balance them one as against
29 the other?

30 A. Obviously. And I would say that I have



1 given consideration, at least implicitly, to one aspect
2 of the effects on railways when I imply and state that
3 the costs of carrying traffic through the long haul point
4 are higher than the cost of carrying traffic to the short
5 haul point. This is something that has to be considered
6 in the net situation and it is often overlooked.
7

8 Q. Now, Dr. Nelson, looking at some of the
9 figures to which you make reference on page 21 of your
10 brief taken, I think, from the Schleef report, and also
11 the ones on page 23, it appears to me, and maybe I am
12 misconstruing, that the very significant rate of growth
13 that was experienced in the Spokane area in its
14 manufacturing, particularly in the numbers of wage
15 earners employed, was experienced from the period 1900
16 to 1919. And, while as you say there was a resumption of
17 growth after parity was established, it is very, very much
18 less significant? Would you agree with that?

19 A. The figures themselves show that, but I
20 would like to add an observation, if I may?

21 Q. Well, I am asking you for one, Dr. Nelson,
22 because it is after the institution of these parity rates
23 that the rate of growth is so markedly slower than it was
24 prior?

25 A. That is correct.

26 Q. And that leaves one to question the impact
27 of the real effect of parity in the stimulation of
28 economic activity in the area?

29 A. You mean manufacturing activity.

30 Q. Particularly.

A. You should not omit that because those two



1
2 tables you draw attention to are manufacturing and
3 from the census of manufactures.

4 Q. Yes.

5 A. It is correct that the figures show that
6 the rate of growth from 1919 to 1929 is less than it was
7 from 1900 to 1919. It is also true that there is no
8 effort in the brief to hide that fact in any way, and I
9 am sure it was not implied that it was.

10 Now, as to an explanation, I think that I have
11 said and I think the studies I have quoted -- and Miss
12 Schleef has studied this for a couple of years, I think,
13 before making this study -- have indicated that the rapid
14 growth was due to the exploitation of the resources that
15 nature had left there that was found and expropriated and
16 rapidly developed, in that it was profitable to do it when
17 the railroads came, and you get this very great growth
18 as you select the choicest timber and the choicest mines,
19 and you start from nothing. So, the growth is very
20 impressive percentage-wise, and even absolutely, as it
21 shows up there.

22 And, then, you get all the best locations for
23 minerals and lumber and you develop your markets. Then,
24 from that point on the competition of other areas becomes
25 a lot more hard. You get diminishing returns in your
26 operations when you go to poorly located mines and poor
27 timber, and so on. And, as a result of that, this growth
28 did not continue because they had rapid exploitation, and
29 it had to slow up.

30 It is significant, however, that the growth



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2 did continue, and when you shift from a raw materials
3 economy to a diversified basis of industry, this is a very
4 difficult thing for any economy. This is the problem of
5 the underdeveloped countries, such as Nigeria that I have
6 just been in, and this does not happen overnight. It
7 would be remarkable if it did. So, I see nothing very
8 significant in the diminished rate there. I am only
9 saying that the rate parity was helpful in establishing
10 some activities, and I gave you the case of Mr. Johnston's
11 Columbia Electric.

12 Q. Yes.

13 A. That started back in these days.

14 Q. I have just one more point, Dr. Nelson. On
15 page 67, at the bottom, you say:

16 "However, recent long and short haul
17 discriminations against Spokane in
18 truck rates to Eastern markets,
19 accounted for by competition of
20 forwarders from coastal points such
21 as Los Angeles, created a serious
22 problem for Columbia Electric".

23 Is that long and short haul discrimination
24 in truck rates a general problem, or is this something
25 that is merely an experience by this one shipper?

26 A. I do not think it is. Even Commissioner
27 Eastman, one of the most ardent advocates in the later
28 days for the Motor Carrier Act of 1935, testified before
29 the Huddleston Committee of the House of Representatives,
30 Interstate and Foreign Commerce Committee, to a direct



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2 question, that discrimination is not a reason for
3 regulating motor carriers, and that reason is that we
4 get very few complaints; and the reason for that is
5 it is a competitive industry under free entry, and where
6 you have competition you have a removal of the
7 discrimination. Competition is not the explanation. It
8 is monopoly power. And a combination of competition and
9 monopoly power in even markets is the cause for
10 discrimination.

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2 Now, since the adoption of the Motor Carrier
3 Act of 1935, in the United States we have substituted a
4 cartel process in the regulating operation of the motor
5 carrier industry. The ICC, for better or worse --
6 something like getting married -- encouraged the
7 development of rate bureaus on the pattern of the
8 railroad rate bureaus and they were repeatedly set up
9 after the Motor Carrier Act was passed and not before.
10 As a result of that there is now a considerable amount
11 of market power lost to it that way. The sort of cartel
12 monopoly power had certain controlling firms, all of the
13 firms in a region belonging to a motor carrier rate
14 bureau such as the Rocky Mountain Motor Freight Bureau
15 and as the result of that it will, as this illustration
16 shows, bring about this situation and it has now in
17 cases caused difficulty. I do not know how many cases
18 there are but I think any informed transportation person
19 in the United States knows they are nothing like as
20 frequent as in the case of railroading. I will risk my
21 reputation and I have in the past risked my reputation
22 by saying if we introduce the free entry advantage to
23 the distributor, they can get their level of rates
24 through the long and short haul above the average and
25 the ones they cannot afford could lower rates.

26 Q. Their solution of the problem would not be
27 to so much lose the long and short haul discrimination
28 as is manifesting itself in trucking demands to
29 prohibitory regulation but rather by the avenue of
30 opening the matter up to a free entry basis and let



1
2 competition drive it down.

3 . I do not know how serious factually this
4 problem is. I found this case and it was felt to be
5 very serious in Spokane, and, therefore, I cannot say
6 whether we should put a long and short haul clause in
7 the Motor Carrier Act. Of course, there is shipper demand
8 for it in our economy but I do not know how serious a
9 problem it is. I do know if there are other reasons why
10 the type of motor carrier control we have are bringing
11 undesirable economic effects and I think in general they
12 are -- this study I made for the President was precisely
13 that question -- I think if we are to tax our entry
14 controls and maybe our minimum route and allow more
15 competition then there would be far fewer cases on this
16 sort of thing and we might not have to utilize a specific
17 regulation.

18 COMMISSIONER MANN: Is this not the case, sir,
19 Mr. Cumming referred to on page 67 of your brief the
20 same thing that is proposed. I notice you say:

21 " However, recent long and short
22 haul discriminations against
23 Spokane in truck rates to Eastern
24 markets, accounted for by
25 competition of forwarders from
26 coastal points such as Los Angeles
27 created a serious problem for Columbia
28 Electric".

29 Is this a case here where there is a forwarder at a
30 point that produces a lot of things and is able to give



1
2 shippers of L.C.L. or L.T.L. quantities, in this case
3 a lower rate than the L.T.L. or L.C.L. rate available
4 to Columbia Electric in Spokane, is that not the case
5 rather than the long haul short discrimination?

6 THE WITNESS: Well, it is a case of long haul

7 --

8 COMMISSIONER MANN: It is not necessarily so
9 because what you are getting there is the difference
10 between the least cargo rate and the forwarder rate and
11 the less cargo rate from Spokane and the forwarder rate
12 from the coast city which is somewhat lower than the
13 rates from Spokane.

14 A. That is correct and it is correct that the
15 forwarder competition impacted in Los Angeles and that
16 is the main problem they have.

17 COMMISSIONER MANN: It is a problem essentially
18 of the existence of a large number of companies that can
19 contribute to a successful forwarding operation at the
20 coast and the relative absence of such suitable traffic
21 for a profitable forward operation from Spokane.

22 THE WITNESS: It may be before there was some
23 competition to the truckers from the forwarders shipping
24 through the railways under piggy-back rates. I do not
25 know all the facts of the situation but this caused the
26 truck rate group in concert to lower the rates in
27 Spokane but whatever the cause of it it very seriously
28 affected the Columbia Electric and caused them to
29 consider whether they could stay in Spokane if they
30 could not get it adjusted. I think this question that



1
2 was asked me about whether we have attacked this
3 problem of long and short haul clause regulation in
4 the Motor Carrier Act or in some other way by loosening
5 up competition in the field depends, of course, on the
6 extent of this sort of thing and whether you could
7 loosen up competition to let competition take care of
8 the problem. I think the implication may be that was
9 implied here that there is no need for long and short
10 haul regulation in the case of railroads. I do not
11 think that that follows because I think railroads may
12 well have monopoly areas at monopoly points, relative
13 monopoly, and considering the limited number of railway
14 companies and the great cost of establishing numerous
15 firms with free entry with the railway industry and
16 complete relief to any kind of specific economic
17 requirement on maximum rates at intermediate points it
18 would not take care of the railway problem. In the
19 long run as the trucks extend their competition against
20 the railroads if the railroads are so foolish as to
21 hold their high value at rates and other rates at very
22 high levels then in the long run competition would
23 probably eliminate this problem.

24 MR. CUMMING: Thank you.

25 THE CHAIRMAN: Mr. Brazier?

26 MR. BRAZIER: No question, Mr. Chairman.

27 THE CHAIRMAN: Mr. Fournier?

28 MR. FOURNIER: I have no questions.

29 THE CHAIRMAN: Mr. McDonald?

30 MR. McDONALD: No questions.



CROSS-EXAMINATION BY MR. SINCLAIR:

Q. Dr. Nelson, Mr. Cumming asked you about the position of the railroads and in your investigations did you not foresee the submission of the railroads under senate resolution involving the United States study into the National Transportation Policy. Did you not have sent to you the study group filed by the A.A.R.?

A. Let me see -- -- was this filed by General Doyle?

Q. Yes.

A. Yes, I wrote for that a few weeks after returning from Nigeria.

Q. Have you read it?

A. I have read it but I have not made any detailed study of it because I have been awfully busy. I would have to reread it to comment intelligently on it.

Q. Well, you know that what it is is the very definite submission by the railways that the fourth section of the Interstate Commerce Act should be repealed.

A. That is correct. That is the position that they have taken -- maybe not all of them -- ever since the 1930's.

Q. If prohibition against long and short haul discrimination is not advantageous to railway interests obviously they would not be trying to repeal it, would they?

A. If you assume that the railways always give



1
2 their interest in these matters and always look a long
3 time into the future I would say that in general this
4 is the case. However, this may not necessarily mean
5 that it is in their interest.

6 Q. Well, this study that is going on in the
7 United States is having to do with "a sound national
8 transportation system is essential to the continued
9 economic development and defence of the United States".

10 A. Yes.

11 Q. Now, on this study I read this:

12 "In advocating the repeal of section

13 4 the railroads are not seeking an

14 opportunity to treat shippers

15 differently without justification.

16 On the contrary, they are willing

17 to continue to accept I.C.C.

18 jurisdiction over discriminatory

19 rate practices on their part.

20 Their only insistence is that such

21 practices be reviewed realistically

22 and in the light of what constitutes

23 unjust discrimination when, as is

24 the case today, most shippers have

25 access to competitive forms of

26 unregulated transportation that

27 are free to discriminate, and do

28 discriminate, among their users

29 at will and in any manner that

30 strikes their fancy."



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A. I read that.

Q. Do you agree with it?

A. I will have to qualify. I will first state that Mr. Toly is a case in point where they could not use unregulated truck transport and where if they could lawfully have done so they could have tackled this thing immediately. I hesitate to testify further but I know that in this case -- you should call Mr. Toly of the Columbia Electric if you want this -- I know in this case unregulated truck transportation was available to them but it was not lawful under the Interstate Commerce law if they did use it. Therefore, I think one would have to say there are limitations; shippers do not always have alternatives. I know the shippers in Spokane do not regard for all the commodities in and out of Spokane for wholesaling and manufacturing that trucking is a suitable alternative to it.

Q. I suggest to you the reason that they do not think it is suitable is because of restrictive practices on the railroads, they have been held down on their rates so the rates are lower and that is why the shippers do not look upon the alternative as a true alternative. It is a question of cost?

A. Obviously, the railway rates for hauling certain commodities are lower than truck rates and the truck rates sometimes do not put in effective rates, they put in paper rates because they do not want that business. Where the railway costs are lower obviously their rates should be lower and it is in their interests as well as



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2 in the interest of the consumers and distributors and I
3 can see nothing strange about that. I would like to
4 comment on that paragraph.

5 MR. FRAWLEY: You are free to do that if you
6 wish.

7 THE WITNESS: I would like to say that I think
8 maybe the meaning of interest of the railroads here, since
9 they have in effect established the difference of interest
10 between economies, that if the fourth section is removed
11 from the Interstate Commerce Act they will repeal the
12 rate parity. They have been making that point frequently.
13 There are economists that doubt if the railways would
14 ever return to very serious discrimination but I think the
15 main thing they are concerned with is whether pressure of
16 the water carriers will lead Congress to change the
17 Transportation Act of 1953, route rate making, section 15A,
18 Part III in such a way that fully allocated railway costs
19 must be the test of minimum rates in meeting intercoastal
20 or other water competition. I think that is fair of the
21 railroads and on that I will agree with them. I do not
22 believe that in all cases fully average costs would be
23 considered a reasonable minimum rate.

24 MR. SINCLAIR: Q. You slipped in -- I do not
25 use that word in an offensive way -- you slipped in the
26 suggestion that the railways had assured General Doyle and
27 his committee about the mountain rate parity. I suggest
28 that it did no such thing. Could you tell me where they
29 did?

30 A. Well, that is the way I read it and perhaps



1
2 in reading I read between the lines.

3 Q. You mean that is what you would like them
4 to do?

5 A. That is the impression I gained. You
6 always have to study these things to figure what the
7 real meaning is and in my judgment that is the real
8 impression.

9 Q. The railroads have made it very clear
10 that the effect of this fourth section and their
11 inability to secure relief from it has been brought
12 about not by shippers but by water carrier opposition.

13 A. That is right.

14 Q. If you studied the fourth section cases,
15 you would agree with me in recent years there is not
16 a single shipper interest, it is the water carriers who
17 are opponents to the railways, from the fourth section
18 relief case.

19 A. Provided the railroads leave the parity
20 of relationship between short haul and long haul
21 shippers as it is the shippers do not oppose ordinarily
22 the lowering of rates to meet water competition at the
23 coast.

24 Q. The reason they asked for the relief from
25 the fourth section is so they can practice long and
26 short haul discrimination and this obviously means that
27 parity is not going to be maintained?

28 A. Well, I am not aware of any cases, many
29 cases, where the railroads have pressed a case recently
30 to get long and short haul discrimination from the east



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2 or the middlewest to Seattle, for instance, with rates
3 lower to Spokane. These cases may exist and I may not
4 have discovered them.

5 THE CHAIRMAN: Does section 4 preclude them
6 from doing that?

7 THE WITNESS: No, they have the right to go
8 in and file a tariff and ask for relief from long and
9 short haul clause discrimination and their case will
10 immediately be considered by the fourth section board.
11 If the Commission grants them relief they probably will
12 sustain it and hear it.

13 THE CHAIRMAN: Is there much of that?

14 THE WITNESS: There is a lot of that but not
15 in the transcontinental area, it is in the other areas.
16 It may be that Mr. Sinclair had in mind the fact that
17 I think three years ago the I.C.C. and the railroads
18 recommended that there be general relief on circuitous
19 routes to meet the rates of the truck routes. An
20 amendment was passed amending the long and short haul
21 clause in order to allow that. As to the type of relief
22 from long and short haul discrimination, it involves
23 discrimination against intermediate points on the
24 indirect routes so the routes on the short points may
25 be the same as on the direct railroad. They just had
26 to file tariff but the railroads no longer have to seek
27 permission to do that. The ground for this, as I
28 understand it, was largely that usually the Commission
29 grants this anyway. It is a legitimate case, and, I
30 think most economists agree with this for long and short



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2 haul clause discrimination otherwise you will not be
3 able to maintain a circuitous railroad to serve a lot of
4 territory. It is, I suggest, a good thing not to put
5 in specific applications in order to avoid this. Even
6 on a general rate increase you have various costs of
7 the railroads and their personnel and the I.C.C. has to
8 go through a lot of cases and, as I understand it, both
9 the I.C.C. and the railroads said that this was a
10 worthless expenditure of time because usually this type
11 of thing was allowed. They said, "Let us get away from
12 the paper work" and this has been done. I do not know
13 how this has worked out but it sounds like a reasonable
14 idea to me.

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2 Q. You will also recall that this statement
3 is made, "Section 4 is being principally used by the
4 water carriers as a vehicle for perpetuating an artifi-
5 cial and unrealistic concept of 'destructive com-
6 petition' by railroads -- a concept that the Congress
7 repudiated when it enacted the Transportation Act of
8 1958." It goes further and says, "In recent cases
9 recent proceedings under Section 4 will be searched
10 in vain for evidence of their intervention . . ." --
11 that is, the intervention of shippers -- " . . . except
12 in support of railroad applications."

13 A. That may refer to a lot of these recent
14 cases having to do with letting circuitous railroads
15 meet the long haul rates of the direct railroads in
16 which case the shippers tend not to be concerned.
17 I would have to know all these cases in order to
18 comment factually on the statement other than the way
19 I have commented on it.

20 Q. I suggest to you on circuitry, a water
21 carrier would not be interested. In a Fourth Section
22 circuitry case water carriers don't appear. They only
23 appear where there is intercoastal competition?

24 A. I am not sure that would always be the
25 case. That might often be the case, yes.

26 Q. One other thing: do you think that the
27 attitude of Congress would be different in regard to
28 this entire matter if foreign shipping was allowed in
29 the coastal and intercoastal trade of the United States?

30 A. That is very hard to say.



1
2 Q. What do you think? You are a student
3 of the problem, and you know that in the United States
4 coastal and intercoastal is tied to American shipping?

5 A. Well, I would say the attitude would
6 favour reducing the rates to keep the eastern and all
7 manufacturers in the markets that foreign competition
8 was coming into, but I am not sure this would carry
9 with it the attitude that we should restore long and
10 short haul discrimination of the type that existed
11 before 1918 in the transcontinental period.

12 I am also not sure that the response of the
13 American government, if this became a serious problem,
14 would not be rather to raise tariffs or quotas rather
15 than to attack it through a change in the regulation.
16 I rather suspect the latter would be the case.

17 Q. Doctor, did you know that foreign
18 shipping was permitted in coastal and intercoastal
19 trade in Canada?

20 A. I don't know the full facts on this, but
21 I will accept it.

22 Q. And this is a marked difference to the
23 situation in the United States?

24 A. It may be; I don't know.

25 COMMISSIONER MANN: Just to keep the record
26 quite straight, Mr. Sinclair and I have had this ex-
27 change before: foreign shipping includes British
28 Commonwealth registry, and actually there is only
29 British Commonwealth registry that is entitled to
30 intercoastal cabotage in Canada.



1
2 MR. SINCLAIR: Q. Nobody is allowed
3 cabotage in the coastal or intercoastal trade in the
4 United States under your legislation, are they?

5 A. Except during war periods. May I
6 answer one of your earlier questions a little more fully:
7 on the point about the shippers not protesting certain
8 cases of long and short haul discrimination, this may
9 well be cases where there is no intermediate production
10 that is involved. I remember quite well during the
11 thirties when the water carriers, and the trucks and
12 the railroads were contesting over the division of the
13 traffic on citrus fruits to New York and other ports
14 up there from Florida, and there was a long series of
15 very interesting long and short haul cases, and the
16 shipping rates were under the Maritime Commission,
17 the railways under the ICC, and the trucking rates,
18 being exempt carriers, were under no one. The rail-
19 roads were allowed to engage in long and short haul
20 discrimination against, say, the Carolina cities, to
21 take an example.

22 I went over those cases years ago when I was
23 with the Board of Investigation and Research and when I
24 was directing another study on standards of rate con-
25 trol, and in this series of cases, to the best of my
26 memory today, these towns in North Carolina did not
27 protest this, and I always wondered why. My guess is
28 that they didn't find the price of citrus fruits at
29 those towns compared with the price at New York a very
30 significant matter. So, there may be -- and I am



1
2 pretty sure this is the case in the citrus fruit
3 series in the 1930's -- there may be a number of cases
4 where there is no particular reason for the inter-
5 mountain, or, rather, the intermediate territory to be
6 very concerned about the problem. Therefore, they
7 might not rise to protest.

8 Q. Would you agree, as a transportation
9 man, that where there is an alternative method of
10 transportation that restrictions on meeting competition
11 such as the Fourth Section of the Interstate Commerce
12 Act is not good economics?

13 A. No, I could not agree with that. I
14 think most transport economists and most general
15 economists that ever looked into transportation policy
16 for the United States have favoured some kind of long
17 and short haul discrimination; not necessarily every-
18 thing the Commission has done or the law requires.
19 I know that when the cabinet committee report was
20 filed in April 1955 that there was great interest
21 both among transportation economists and a good many
22 general economists -- sufficient interest that the
23 American Economic Association published my review
24 article in December 1955, and I remember the editorial
25 comments, and I can say from that some very distin-
26 guished general economists were worried about the
27 degree of freedom that was being sponsored for the
28 railroads and over the recommendation that the long
29 and short haul clause be eliminated from the Act in
30 the cabinet committee report. So I would say you



1
2 won't find economic opinion that would favour eliminating
3 long and short haul discrimination unless you can get
4 certainty that this discrimination -- the unjust cases
5 of it -- would be actually taken care of through
6 Section 3. The railroads say it would, but I don't
7 believe the shippers concerned have ever accepted that
8 statement by the railroads, and I doubt whether most
9 economists that I know would accept it. I think most
10 of them would say here is some monopoly power -- some-
11 times in high degree -- and it is socially just that
12 there be limitation on this power. It has to be an
13 appropriate limitation and a limitation can often result
14 in directing industry to the location where, everything
15 considered, the costs of production and marketing are
16 the lowest, and though the railroads may sometimes gain
17 more by not having the limitation, this may injure
18 economically the whole situation. I think this is
19 the direction of economic thought.

20 Q. There is one point, doctor, that I
21 wondered about as to whether you had given it any weight
22 in your suggestion -- and you have made this suggestion
23 -- that the United States and Canadian situations are
24 comparable? Long and short haul discrimination by
25 carriers under Section 3 of the Interstate Commerce
26 Act -- the water carrier is kept on a parity with the
27 railways in respect to prohibition against long and
28 short haul discrimination without prior approval; that
29 is correct, isn't it?

30 A. Well, I know that Dr. Loughlin states in



1
2 his text that Section 3 covers all kinds of unjust dis-
3 crimination even including personal discrimination which
4 is covered specifically in Section 2 and forbidden.

5 Q. Pardon me, but that is not the question
6 I asked you. I am asking you whether the general
7 discriminatory sections of the Interstate Commerce Act
8 apply to water, motor carrier and rail? Of course
9 they do. I am asking you in considering your suggestion
10 that the situation you have dealt with in the United
11 States is applicable in Canada, did you give considera-
12 tion to the fact that carriers under Section 3 of
13 the Interstate Commerce Act were kept under the same
14 kind of regulation as the railways in the United States,
15 and did you consider that relationship in Canada in
16 coming to your conclusion that there was some kind of
17 parity?

18 A. I know that in both Parts II and III of
19 the Interstate Commerce Act applying to motor carriers
20 and water carriers respectively that there are general
21 prohibitions similar but not precisely the same as
22 Section 3.

23 Q. I am talking about Section 4.

24 A. There is a Section 4 only in Part III
25 applying to water carriers. There is no such section
26 in Part II.

27 Q. But there is no prohibition in Canada at
28 all limiting in any way water carriers' practice of
29 discrimination either personal, market, long and short
30 or any other kind; did you know that?



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A. Well -- no, I didn't.

3

Q. On intercoastal trade?

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A. That raises a question of whether you need it here rather than the question of whether you should throw out all of the present regulations upon long and short haul discrimination in Canada with respect to the railroads.

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Q. You see, doctor, it is only certain limited areas that get any regulation of water carriers at all -- a very limited area in Canada. This is in marked contrast to the United States, and this is why I think the American economists, I suggest to you, in their generality of trying to apply the principles to the Canadian situation very often fall into grave error because they don't realize the ~~different~~ situation which exists in this country.

18

19

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MR. FRAWLEY: You have only called attention to one, and that is that intercoastal traffic in Canada is not subject to any regulation at all.

21

22

23

MR. SINCLAIR: Q. I will give you another one: do you know what regulation there is on interprovincial highway transport in this country?

24

25

A. I haven't recently examined the facts. I understand, however, there is none.

26

27

28

MR. FRAWLEY: There is a statute, yes ---

MR. SINCLAIR: Just a moment; let us hear from the witness.

29

30

THE WITNESS: Certainly not of the type and degree that we have in the Interstate Commerce Act in



1
2 regulating motor carriage in the United States. However,
3 you didn't give me a chance to answer your previous
4 question. You made a statement, but there was an
5 implied question, and I can quote from my book if you
6 want me to, and there we went over all the available
7 data and got the help of the rail rate association
8 and the ICC and it appears that not more than 10 per
9 cent, if that much, of the interstate water commerce
10 domestically in the United States is under regulation.
11 Therefore, the Fourth Section discrimination, the
12 application of the Fourth Section to water carriers
13 applies only to a very limited number and a very small
14 part of the total water carrier commerce in the United
15 States, and therefore this situation may not be so
16 far different than it is in this country.

17 THE CHAIRMAN: Will you be much longer, Mr.
18 Sinclair?

19 MR. SINCLAIR: No, but I do want to draw this
20 to Dr. Nelson's attention.

21 Q. I think there are members of this Commis-
22 sion -- I am sure there are -- who do know -- and there
23 may be others who do not -- and I think you should, when
24 you make a statement like you have done about that small
25 percentage, say that that percentage is in the manu-
26 factures, and it is the exempt bulk commodities that
27 makes it so low; isn't that so?

28 A. Well, that is partly true.

29 Q. Why partly, doctor?

30 A. I am not sure, for example, that the



1
2 exempt -- in fact, I know that the exempt petroleum
3 carriers -- barge lines on the Mississippi -- are carrying
4 manufactured goods; they are carrying refined gasoline
5 and diesel oils and other types.

6 Q. Oh, I would call that bulk commodities.
7 That is all I have.

8 A. But these are manufactured commodities.

9 THE CHAIRMAN: Mr. Frawley?

10
11 RE-EXAMINATION BY MR. FRAWLEY:

12 Q. I just wanted to ask one thing: from
13 your survey of the situation in Spokane, and the
14 contacts you have had with industry and business in
15 Spokane generally, would you say that they regard the
16 maintenance of rate parity as a very important matter
17 in their economy?

18 MR. SINCLAIR: After all, how does that
19 question arise out of anything in cross-examination?

20 MR. FRAWLEY: Well, there have been many
21 things put in cross-examination.

22 MR. SINCLAIR: Well, I object to that.

23 THE CHAIRMAN: We will assume that.

24 MR. FRAWLEY: Q. Do you know anything
25 about the reactivation of the Intermediate Rate Associa-
26 tion?

27 A. Yes, I do.

28 MR. SINCLAIR: How does that arise?

29 THE WITNESS: It is in my brief.

30 MR. FRAWLEY: Q. Well, if it is in the



1
2 brief, we will be content with that.

3 A. I can find the reference: it is on page
4 3 at the bottom of the first complete paragraph:

5 "As is well known, those cities joined
6 to organize the Intermediate Rate Associa-
7 tion in 1916 to fight for legislation and
8 administrative rulings to eliminate the
9 long and short haul discrimination to
10 which they had traditionally been subjected."

11 Now, we have to turn to footnote No. 5 on page 12. May
12 I read this, please?

13 Q. Yes.

14 A. "The Intermediate Rate Association was
15 organized in 1916 by Intermountain Cities
16 to advocate elimination of long and short
17 haul discrimination the IRA (meaning the
18 Intermediate Rate Association) was active
19 from 1916 to 1940 and was reactivated in
20 1952 when legislation to amend the Fourth
21 Section was under discussion within the
22 Transportation Association of America."

23 THE CHAIRMAN: Thank you very much, Dr.
24 Nelson.

25 THE WITNESS: It is a privilege, gentlemen,
26 to have been invited to come here.

27 THE CHAIRMAN: Mr. Frawley?

28 MR. FRAWLEY: No, the next witness is Ernest
29 Williams and he is not even in Ottawa at the moment.
30 He will be here on Monday morning.



1
2 THE CHAIRMAN: Well, we will adjourn until
3 Monday morning. Mr. Cumming is having a meeting with
4 counsel and we would ask Dr. Nelson to be there, at
5 the office, at two-thirty.
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7 ---Adjournment.
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